Accounts Payable and Data Quality: Driving Sustained Improvement through an Integrated Approach

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Executive Summary/Abstract: Poor accounts payable data quality has a direct negative impact on an organization’s cash flow. Even so, many organizations still experience data quality problems in their accounts payable process. We have seen a variety of approaches used to assess and address this problem. However, these approaches tend to be applied in a ‘one off’ manner and not in an integrated and sustained manner. The integrated use of business process mapping, data quality control assessments, and data analysis can identify data quality problems in the accounts payable area and be used to drive corrective actions resulting in cash flow savings. When combined with data quality continuous monitoring and improvement techniques, cash flow savings are sustained.

Outline
- Importance of Data Quality in Accounts Payable
- Costs
- Relevance of Data Quality
- An Integrated Approach
  - Assess Examples: Process Flow
  - Data Quality Dimension Analysis
  - Data Analysis
  - Transform Examples: Corrective Action Plan
  - Recovery Tools
  - Sustain Examples: Continuous Monitoring Reports
- Case Study
- Summary and Conclusion

Costs of Poor Data Quality in Accounts Payable
- Significant
- In 2000, one cost recovery firm reviewed over 20 billion transactions for more than half of the Fortune 100 companies to recover approximately $1 billion for their clients.[1]
- Direct
  - Easier to quantify than many data quality problems, because of the direct financial impacts
  - Organizations sensitive to direct impacts on cash flow
- Widespread: Based on experience working directly with our clients, many types of organizations are impacted
  - Good place to start a Data Quality Initiative – quick results related to cash flow.

One-Dimensional Solutions Have Limitations

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<tr>
<th>Technique</th>
<th>Strength</th>
<th>Limitation</th>
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<tbody>
<tr>
<td>Process and Control Reviews</td>
<td>Can identify problems or potential problem areas fairly efficiently, but provides no quantification</td>
<td>Less useful without detailed verification of the process as it is “supposed to be”</td>
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<td>Data Analysis and Reporting</td>
<td>Findings based on “hard evidence”, not conjecture</td>
<td>If not focused on high risk areas, significant time and effort can be involved</td>
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<td>Cost Recovery Projects</td>
<td>Direct impact to bottom line</td>
<td>“Band-aid” solution, not a long term solution</td>
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Integrated Approaches to Dealing with Data Quality Problems in Accounts Payable Are Required

- Assess Process & Controls
- Analyze Data
- Identify Root Causes
- Continuous Monitoring and Scorecards
- Re-evaluation
- On-going Prevention

*Maverick spend is procurement outside of authorized channels (e.g., employee purchases an item and asks for reimbursement rather than going through standard purchasing process.)
In addition to performing assessment activities, it is important to give early attention to the benefits of focusing on data quality issues.

By quantifying potential savings areas (e.g., discounts, duplicate prevention), data quality issues can be prioritized.

The detailed steps of the Transformation phase are largely dependent on the results of the Assessment phase.
Continuous monitoring of identified issues is facilitated with reporting. When system limitations are identified in earlier phases, ad hoc reports may be generated outside of the accounts payable system (as in this example).
Case Study (1 of 2)

**Background**
- Major retailer was submitting claims to vendors that were reducing the amount payable to the vendors.
- For the majority of these claims, the vendors provided supporting documentation (e.g., proof of shipment and proof of delivery) that resulted in a claim reversal.

**Data Quality Implications**
- Quality of payments submitted by retailer
- Quality of claims submitted by retailer
- Data quality issues causing impacts across intra-organizational boundaries

**Impacts**
- Inefficient, unproductive process for retailer and for vendors
- Damaging to vendor relationships
- Created an environment where claim reversals were expected

Case Study (2 of 2)

**Key Outcomes**

- **Assess**
  - Process analysis revealed inconsistencies in receiving practices across locations
  - Cost of rework for retailer estimated at more than 50 FTEs to process claim reversals
  - System contributed to problem: Difficulty handling partial shipments
  - Data analysis and reporting used to quantify and localize results – results differed by channel, distribution center, and store

- **Transform**
  - Improve receiving by:
    - Improving business system
    - Improving processes within a location
    - Receiving to other locations (e.g., move more receiving to DCs from stores)

- **Sustain**
  - Impacts of changes to receiving monitored, and other inefficiencies explored (e.g., importance of inputting reason codes when processing claims reversals)

Summary / Conclusions

- **Integrated Approach** – Data quality problems are complex. An approach that applies a variety of techniques in an integrated manner is critical for success.
- **Costs of Poor Data Quality** – Poor A/P data quality is costly and widespread.
- **Business Process Controls**: Use of process flows, control identification and control remediation as discussed in the audit and control literature[3] [4] is relevant to A/P
- **Continuous Improvement**
  - Remediation of data quality problems in A/P should be supported by continuous improvement methodologies, as discussed in the Quality literature
  - Advantages to “doing it right” vs. doing it wrong and attempting recoveries. Recovery alone does not fix the causes of poor DQ

Questions?

References