

**Executive
Briefing
Series**

OutsourcingVENTURE

Presenting issues, ideas, insight and integrity

Real-Time F&A Monitoring Solution Moves Shared Service Centers From Good to Great

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Executive Summary

It is no longer enough for a shared service center (SSC) for financial operations to just support the organizations it serves. In its focus on achieving competitive advantages for those organizations, the SSC must ensure it continually drives accuracy, quality and efficiency, and that it validates regulatory and company policy compliance in every transaction. The SSC must also consistently squeeze out ever more costs and increase capacity while maintaining contracted service level agreements (SLAs). Many SSCs do not have mechanisms in place to ensure these objectives can be achieved; all of them are subject to the bottom-line impacts of human errors when integrating with ERP systems.

What if a SSC could immediately identify, prioritize and quantify all errors and accounting exceptions within the financial transactions across multiple financial ERP systems? What if these objectives could be performed on a real-time basis, every two or three minutes, extracting data without degrading the ERP financial system's performance? The fact is, due to innovative exploitation of existing technology, a monitoring tool and application now exists that accomplishes these goals.

Moreover, rather than just producing reports, this system provides individual alerts as to accounting exceptions, then provides for resolving them in near real-time before they become more costly and complex to resolve. Intelligence and knowledge, far beyond simple binary rules, are built into the system's integrity checks. These integrity checks inspect financial processes and draw useful conclusions that form the basis for exception handling — another of the system's differentiating characteristics.

This Executive Briefing looks at case study examples of the benefits achieved by companies using this system. It also examines the features/functionality and business-case analysis of this innovative real-time transaction inspection system. With the system, an SSC can achieve defect-free financial processes that:

- Produce accurate results
- Deliver efficient operations
- Validate compliance with regulatory demands and company policies

The Solution: Real-time Transaction Inspection

LINK transactions across
disparate, heterogeneous
financial systems

INSPECT every
transaction in real time
for defects and control
violations; present results
by *quantifying* risk

RESOLVE *all* exceptions
and prove the outcome

“Oversight Systems is best fit for companies that want to combine constant monitoring of critical business transactions with improvement in transaction quality. Oversight's benefits of early detection and quick resolution should pay for this system easily.”

~ John Hagerty
Vice President, Research
AMR Research

Opportunity for Improvement in Shared Service Centers

The financial operations of a SSC are a critical enabler to all aspects of an organization. SSCs are established to improve those operations to effect better service levels (speed, quality and reliability of data) and reduce costs. However, they often fail to achieve these objectives and the anticipated return on investment because of the errors, corrections and rework that are a natural factor in processing thousands of financial transactions.

Over the past decade, organizations moved to leverage technology to address this dilemma, investing millions of dollars in ERP financial systems. Such systems were designed with internal and application controls to lessen the impact of human errors. Nevertheless, humans must interact with the system for entering and approving such items as purchase orders, invoices and vouchers; in doing so, errors are introduced, causing defects in the process. More stringent system controls might reduce errors, but this creates an efficiency/cost-effectiveness trade-off. The more locked down the system is, the more difficult it is to operate.

Oversight Systems provides a software solution that helps enterprises and SSCs meet internal goals and SLAs by identifying breakdowns, or defects, in financial processes as they occur. Oversight gathers data from all of an organization's financial systems and constantly inspects every transaction to find errors and exceptions to accepted business practices. The system also identifies the exact origin of errors and the impact of every one of them across multiple business processes and multiple sources of information.

“The Oversight system has paid for itself in every month that it's been installed. It prevents money from going out the door and offers savings against what we would have to collect with an audit recovery firm.”

~ Rob Bowers
Accounts Payable Director
Avery Dennison

Oversight ensures defect-free financial processes, treating them in a manner similar to the manufacturing industry's approach to quality. Until now, it was only possible to examine the data in financial processes on the back end — similar to checking for quality on the back end of a manufacturing process 20 or 30 years ago. Today, manufacturers check quality at each step of the process in order to eliminate all defects in the process. This is the mentality at the base of Oversight Systems for financial processes.

This approach is possible through the system's capability for real-time transaction inspection. Early detection of errors enables an SSC or any enterprise accounting organization to correct a problem when it is less costly and less complex to do so. It eliminates the need for adjustments, reversals, re-work and recovery fees on the back end. Managing by exception handling and early detection will result in productivity gains and an improved bottom line. The system also exposes weaknesses in the processes and the people who impact them.

Oversight Systems Capabilities

Oversight Systems is a software-based solution that automates the analysis and testing of auditors and fraud examiners over every transaction within multiple financial systems. It links the transactions of disparate, heterogeneous financial systems including SAP, PeopleSoft, Oracle, MFG Pro, JD Edwards, Infinium and any system with a relational database. In contrast to other monitoring solutions that can only run at night or on weekends, Oversight’s lightweight extraction runs as often as every two minutes, extracting only relevant information and not impacting the performance of those systems.

A “**transaction**” is each interaction between a person and the ERP financial system

Behavior without real-time capabilities:

I know there will be mistakes in the system, but I can’t afford to manually test every transaction.

Real-Time Transaction Inspection

Oversight is designed to inspect every transaction in each sub-process, or function, within a financial process. For example, Oversight views the entry of a purchase order (P.O.) into the system, the approval of the P.O., the creation of a voucher and the sign-off upon receipt of goods as four separate transactions. The inspection occurs in real-time (every two minutes). Finding mistakes within a few minutes of entry into the ERP system is exponentially more valuable than reconciling accounts at the end of the month, reviewing a sample of vouchers on a weekly basis or doing a recovery audit nine months after the fact.

Overtime’s real-time transaction inspection runs counter to traditional “accounting time,” where defects in financial processes are found at the completion of a process and after the conclusion of a reporting period when they are more complex and more costly to correct.

In contrast, Oversight’s real-time functionality catches mistakes wherever they occur in the process, increasing accuracy of the information. It also prevents the domino effect on other processes from errors in a system. For example, an invalid customer, identified within the order-to-cash process, will impact the following sub-processes or activities:

- | | |
|---|---|
| <p><u>Shipment Process</u></p> <ul style="list-style-type: none"> - erroneous shipment - return materials | <p><u>Billing Process</u></p> <ul style="list-style-type: none"> - erroneous billing - reversed billing |
|---|---|

Without detecting the invalid customer, the shipments and billings would need to be reversed, materials returned and billing reversed. This re-work adds to the SSC’s costs and inefficiency. Oversight’s detection facilitates a defect-free process.

The system also short cycles an organization’s ability to resolve errors and points to weaknesses in the process so the errors can be prevented from happening again. Oversight also calculates a quantified risk for every exception it identifies.

Customer Case

In the first two months of monitoring a company's procure-to-pay process with more than 50,000 monthly payments, Oversight found 730 duplicate vouchers. The system also found 19,000 voucher lines where, for the items ordered on those voucher lines, the P.O. was entered after the voucher was created. Thus, the system detected a defect in the organization's process controls that required purchase orders in advance of all goods purchased.

Review 100 Percent of Transactions

Most SSCs and enterprises lack the capacity to review every financial transaction, and it tends to not be cost-effective to try to do so when many transactions have a low monetary value. Most review only the highest-risk transactions based on monetary value.

Oversight, on the other hand, automates the analysis of all transactions. This becomes not only a financial benefit from not having to adjust, re-work or recover a transaction but is also an efficiency gain. In the customer case below, for example, the time the SSC now spends daily to handle exceptions detected by Oversight from 100 percent of the financial transactions is the same amount of time it was spending to review only the highest-risk transactions.

Customer Case

After implementing Oversight, a company decided first to test the system compared to the company's own quality assurance and manual testing to prevent payment errors. In the first month, the company's SSC processed 40,000 transactions totaling \$150 million in payments. Within those 40,000 transactions, Oversight determined that 99.83 percent were valid payment transactions and 0.17 percent were invalid. By any measurement of quality, the SSC was in the range of best practices.

However, in the 0.17 percent of transactions, Oversight identified a mistaken \$1 million wire transfer and a \$387,000 duplicate payment. The company's manual QA team also caught these errors, but only after the payments would have been made. With Oversight, the company avoided a recovery process to get the money returned. Moreover, Oversight identified the first signs of these errors and could have corrected them at the voucher level.

In addition, Oversight identified 67 smaller transactions, which the company never would have looked at because they were below its monetary threshold for manual testing. Those 67 transactions totaled \$42,000 of errors that Oversight was able to prevent.

Financial Processes Monitored by Oversight Systems

Oversight inspects each transaction, correlating results with other transactions for all the sub-processes or functions of financial processes. These include:

Procure-to-Pay

Sample defects:

- Invalid vendor
- Duplicate purchase order
- Payment to employee
- Segregation of duties

Employee Pay

Sample defects:

- Paycheck to inactive or nonexistent employee
- Paycheck differs from employee
- Invalid employee

Order-to-Cash

Sample defects:

- Order exceeds credit limit
- Invalid customer
- Receive invoice mismatch
- Shipment without order
- Segregation of duties

Expense Reimbursement

Sample defects:

- Expense duplicate
- Expense approval segregation of duties
- Expense improper SIC
- Expense invalid

Financial Accounting

Sample defects:

- Invalid journal entry
- Duplicate journal entry
- Contra balance at period end
- Journal entry to closed period
- Suspense balance at period end
- Segregation of duties

Capital Projects

Sample defects:

- Asset invalid
- Asset capitalization incorrect
- Asset transfer invalid
- Asset transfer not approved
- Segregation of duties

Purchase Cards

Sample defects:

- Payment duplicate PO
- Multiple transactions to a vendor that violate single-purchase limits
- Transaction inactive or invalid employee

On an automated basis, Oversight tests every transaction in each financial process. It performs integrity checks that correlate multiple indicators it looks for in order to draw logical conclusions about invalid transactions and their root cause. For example, the integrity checks within the Invoice Voucher and Payment Processes include:

Invoice Voucher Process

- *invalid voucher*
- *voucher for 0*
- *voucher for invalid vendor*
- *voucher to duplicate PO*
- *voucher duplicate amount*
- *voucher line with no PO*
- *voucher line/PO mismatch*
- *voucher line/receipt SOD*
- *voucher line/receipt mismatch*

Payment Process

- *payment duplicate*
- *payment line duplicate*
- *payment line exceed voucher*
- *payment line without voucher*
- *payment line/voucher mismatch*
- *payment line for duplicate voucher*

Another factor differentiating Oversight from other types of inspection and monitoring solutions is the complex intelligence and knowledge built into its integrity checks. These checks go beyond simple binary rules. Each check has multiple indicators to prioritize the risk (i.e., is this something we really need to go look at?) and complex reasoning to identify similar but not identical individual transactions (i.e., a clerk adding a suffix to the end of a voucher number to circumvent a system control). The integrity checks help Oversight draw logical conclusions about the cause and impact of specific errors and violations.

Exception Handling

Once it detects invalid or non-compliant transactions, Oversight automatically generates alerts to commence the exception-handling process to resolve issues. Although the SSC staff handles the exceptions, the Oversight system automatically documents each step of the process as being under review, under investigation or resolved (corrected, closed or dismissed). The automated record includes documentation of who carries out the review, and it logs changes in “ownership” if the exception-handling is assigned to someone else.

The system’s goal is to resolve all exceptions and prove the outcome. Management can review the record to learn how many exceptions remain open and who is responsible for them. Within the system there are access-based controls (set up by the SSC) that determine the level of person who needs to review particular kinds of exceptions.

Customer Case

Prior to implementing the Oversight Systems solution, a client had a team of three people who performed quality assurance tests on the back end of the process. Before checks went out, they ran reports on the ERP system and manually tried to prevent any errors from going out the door. Oversight has automated the testing, and the company is now down to just one person who resolves the exceptions identified by Oversight.

Sarbanes-Oxley Compliance

Compliance should be a core business function of a SSC performing financial operations, and Sarbanes-Oxley demands strong internal controls through all financial processes. Oversight’s reports can be exported into governance, risk and other compliance software to document transaction compliance and control effectiveness. When combined with its operational benefits to SSCs, Oversight allows organizations to gain substantial returns from their Sarbanes-Oxley compliance investments.

Oversight and Six Sigma Companies

Companies that have adopted a Six Sigma approach to analyzing effectiveness and areas for improvement understand the costs of errors in any process. Oversight’s real-time transaction monitoring fits with this approach, clearly and proactively identifying transaction defects and process weaknesses.

Security

The system's real-time monitoring also helps to prevent fraud. It monitors changes into a financial system, no matter whether the change was made through the application, the operating system or at the database level. Oversight ensures financial and IT employees cannot manipulate a data field without company permission or being pushed through the corporate change-control process.

Customer Case

Before a payment run in a shared service center, a database analyst went into the PeopleSoft ERP system database and did a bulk table load, uploading new information into the database without creating a record of what he actually did. Checks were then cut. The employee had a check made out to himself and mailed to his address. After the check was run, he went back to the database and replaced the information back to its original state. Oversight Systems identified three events in connection with this fraud: the changing of a payment before a payment run, a vendor address that resembled an employee address and the altering of a vendor file back to its previous state. There were no PeopleSoft controls that would have prevented this action.

Business Case Analysis

The business case for the Oversight solution is appealing to any enterprise or SSC. Oversight delivers immediate value by assisting an SSC to achieve defect-free financial processes by:

- Identifying and correcting errors and control violations when they are less costly and complex to correct
- Automating quality inspection
- Identifying process inefficiencies
- Validating transaction and process compliance

In addition, SSCs and enterprise clients can achieve significant hard-dollar savings by eliminating the external costs of duplicate payments from recovery fees to third-party firms. Essentially, many clients find the Oversight solution pays for itself through multiple improvements to the bottom line.

Customer Cases

- A client based its business case in support of Oversight based largely on reducing the number of duplicate payments made out of its payables system and on reducing the dollars spent in recovery fees to a third-party firm. Prior to implementing Oversight, the company was paying in the range of \$300,000-\$400,000 annually in recovery fees. Recovery fees were reduced to less than \$100,000 in the first year Oversight was installed and were predicted to nearly halve again the following year.
- A shared service center reduced its duplicate payments by 75 percent.
- For another client, Oversight prevented nearly \$1 million in duplicate payments within a three-week period.
- In checking for duplicate vendors, Oversight examined for a company approximately 8,000 additions and changes to the vendor master file and identified almost 1,600 potential vendor duplicates.
- Oversight caught \$160,000 in overpayments from one company in 30 days.

Each of the seven financial processes (such as Procure-to-Pay and Order-to-Cash) is a separate module within the Oversight architecture. Clients have the option to deploy as few or as many of the seven modules as they wish.

SSCs and enterprises generally commence the Oversight service with the module(s) that will produce the most immediate benefits and address an organization's primary pain points. A company with a large volume of traveling employees, for example, may find more benefits in starting the service with the Purchase-Card module, rather than one looking to eliminate duplicate P.O.s (within the Process-to-Pay module).

The outsourced solution includes installation of the appliance, ongoing configuration and updates by Oversight staff. Oversight clients recognize they cannot develop a system with the same accuracy, rigor and flexibility as the Oversight solution. By deploying Oversight, they obtain a state-of-the-art solution at a cost far less than trying to build a system in house.

"Your IT department might be tempted to build your own monitoring tool, but the challenge is to build a solution that delivers accurate results. I don't know of any IT department that has the expertise to build the same intelligence and the same heuristics that exist within the Oversight solution. Over the course of a week, your system might catch 1,000 transactions, and 99 percent of the things to look at would be false positives. But Oversight's intelligence is able to filter most of those false positives. Instead of picking through hundreds of false positives, Oversight presents 100 valid exceptions; and for half of those, the system has the capability to see what the resolution ought to be. So you end up with maybe only 50 transactions that people actually have to look at and resolve."

~ Mike Sullivan
Director of Accounting Services
American Electric Power

Summary

*From
GOOD ...*

Shared service centers for back-office financial operations are established to provide more efficient and effective services to an organization. The resultant economies of scale and centralized skills are designed to reduce operating costs, increase productivity, ensure best practices and achieve higher-quality performance, improve financial management and provide timely decision support.

The Oversight Systems solution's real-time transaction inspection is a vital component of ensuring overall quality in financial processes. It is directly tied to a SSC's ability to achieve the following objectives:

Accurate Results

- Increasing the accuracy of transactions and financial processes
- Meeting SLAs with business divisions or external clients consistently
- Facilitating resolution of errors and violations as they occur and before they create larger, more costly problems

*to
GREAT!*

Efficient Operations

- Eliminating manual discovery of issues, facilitating moving right to resolution
- Enabling an organization to view 100 percent of transactions, not just aggregate data above a specified dollar threshold
- Providing evidence of where processes are not working and measuring the effectiveness of a fix
- Identifying sub-functions within financial processes that cause cost overruns
- Identifying the source of an exception and evaluating related exceptions
- Reviewing root causes of all potential violations
- Supporting Six Sigma and other quality-management programs by helping drive errors out of the process and facilitating problem resolution

Validated Compliance

- Providing permanent documentation of the transactions inspected, the errors identified and the resolution process for compliance with Sarbanes-Oxley
- Serving as a deterrent for improper motives or behavior that does not align with company policy
- Integrate results into governance, risk and compliance documentation applications

With the Oversight Systems solution benefits, a SSC can gain insight into its economic factors that impact the enterprise(s) it serves. In short, the SSC will begin producing great results, transforming it from a good to a great organization.

About the Authors: Kathleen Goolsby and F. Keaton Whitlow are writers with Outsourcing Venture. Kathleen has been writing about outsourcing since 1998 and Keaton since 2002.

For more information about Oversight Systems, visit www.oversightsystems.com or call 404.920.2030

