

Optimizing Financial Performance through Strategic Contract Analysis and Compliance Management





Introduction

Financial leakage, particularly from invoices and contracts, presents a formidable challenge that organizations encounter, affecting their bottom line and operational efficacy significantly. It is estimated that a sizable portion of EBITA—somewhere between 1% to 5%—may unwittingly seep out of companies due to gaps in contract management and payment follow-up processes. This leakage is not confined to a specific industry but is a common issue across various sectors, stemming from manual and often flawed finance and accounting processes such as pricing errors, the use of spreadsheets, and hurdles in effortlessly accessing contract details.

The Challenge of Financial Leakages

In the realm of contract analysis, understanding financial leakages entails recognizing the gap between the expected and the realized value derived from contracts. This gap, referred to as contract leakage, can impact businesses, potentially costing them up to 5% of their revenue. Financial leakages manifest in various forms, including invoicing errors, unrealized pricing adjustments, non-compliant work, and delivery failures. These not only culminate in financial losses but also contribute to diminished customer experiences and lost business opportunities. In addition, inadequate visibility and limited straightforward access to contract specifics can critically impede decision-making and the expeditious resolution of leakages.



The Role of Contract Analysis in Invoice Management

The comparison of contract terms with invoiced charges is an essential function in contract analysis, aiming to guarantee that billed amounts are consistent with the agreed-upon terms, thereby averting financial leakages.

This process involves an exhaustive examination of contract documents relative to each invoice received. Focal points include the pricing structure, discount rates, and payment terms. Advanced tools and software, like those offered by Oversight, augment this comparison by utilizing algorithms to automatically signal discrepancies between contracts and invoices. If a contract specifies a particular unit price for goods or services, the analysis must validate that the invoiced amount accurately reflects this rate, accounting for any volume discounts or special stipulations.

The image below shows an example of a comparison between an invoice and the contract that identifies a missed savings of **\$54** per unit due to purchase quantity over **500** as specified in the contract. This equates to a leakage of **\$45,900** which is automatically detected and then easily corrected.

Vendor (Invoice Number)	Vendor Item ID	Description	Contracted Price	Invoice Date	Invoiced Price	Price Difference	Contract Notes
BluePage INC (356789-B)	167056	BluePage PPE, Reag-35789	\$276	May 25, 2023	\$330	+\$54 +19.6%	Contracted price when the quantity purchased is greater than 500 units

Impact Value	Quantity Purchased	Impact Type	Projected Amount
\$54 per unit	850	Cost Increase	\$45,900

Recommended Actions

- Review related exception: [0110853](#): Invoice created date predates PO
- Stop payment in Invoice 356789-B

Indicators

- ▲ Invoiced price greater than contracted price

Figure 1- Oversight helps identify contract and invoice related exceptions

By systematically employing these techniques, organizations can detect overcharges, duplicate charges, and non-compliant billing practices.

Enhancing Spend Visibility

Through data analytics in contract analysis, machine learning and advanced analytics are utilized to navigate through vast amounts of contract data to pinpoint spending patterns and potential financial leakages. By scrutinizing historical contract terms, payment records, and compliance data, organizations can identify inconsistencies and anomalies that suggest overpayments, overlooked discounts, or billing errors.

Oversight refers to this data and machine learning driven methodology as the Global Risk Model. The Machine Learning (ML) model facilitates the proactive identification of areas prone to leakage, enabling organizations to implement preventative measures before substantial losses occur.

The image below shows an example of a comparison between an invoice and the contract that identifies a missed savings of **\$54** per unit due to purchase quantity over **500** as specified in the contract. This equates to a leakage of **\$45,900** which is automatically detected and then easily corrected.

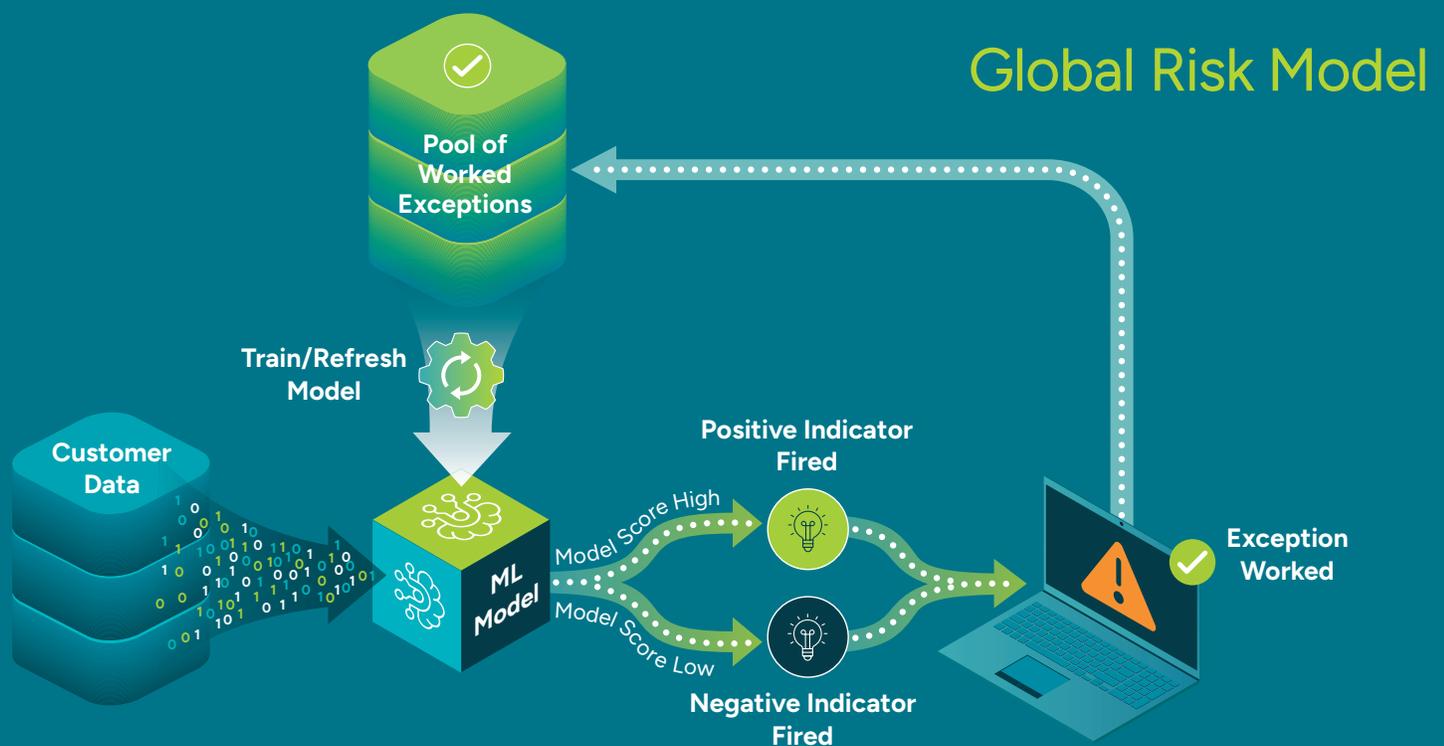


Figure 2- Global Risk Model: based on opted-in customer data.

Machine Learning is one form of Artificial Intelligence (AI) which Oversight leverages to detect and mitigate risk as depicted in the image below. Different types of AI have different strengths and weaknesses and it is critical to have a solution which utilizes a comprehensive suite of AI capabilities to solve for various spend leakages and risks within an organization's financial processes.

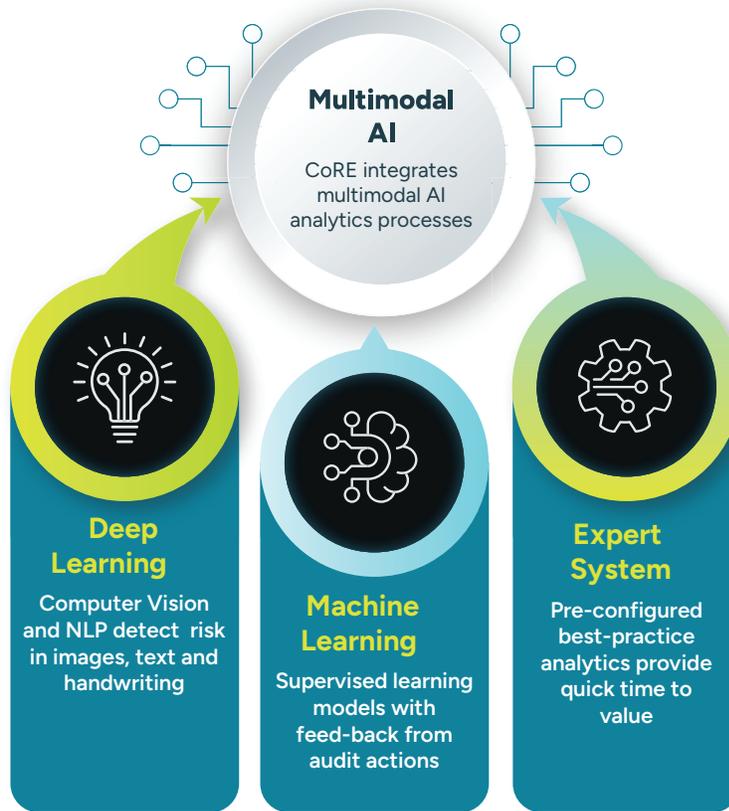


Figure 3 - Oversight Global Risk Model integrates a multimodal AI (Artificial Intelligence) framework

Visibility is key in Strategic Decision Making. Insights gleaned from the analysis of contract terms, vendor performance, and expenditure trends in Oversight Dashboards guide organizations in making informed decisions regarding supplier selection, contract renewals, and negotiation of terms.

Some examples from the Oversight Dashboard are seen below which show the top vendors with realized discounts to inform you of the value you have been able to achieve so far, as well as a graphic timeline of payment distributions for vendors, so you can easily see where potential additional savings may lie.

Top Vendors by Realized Discount



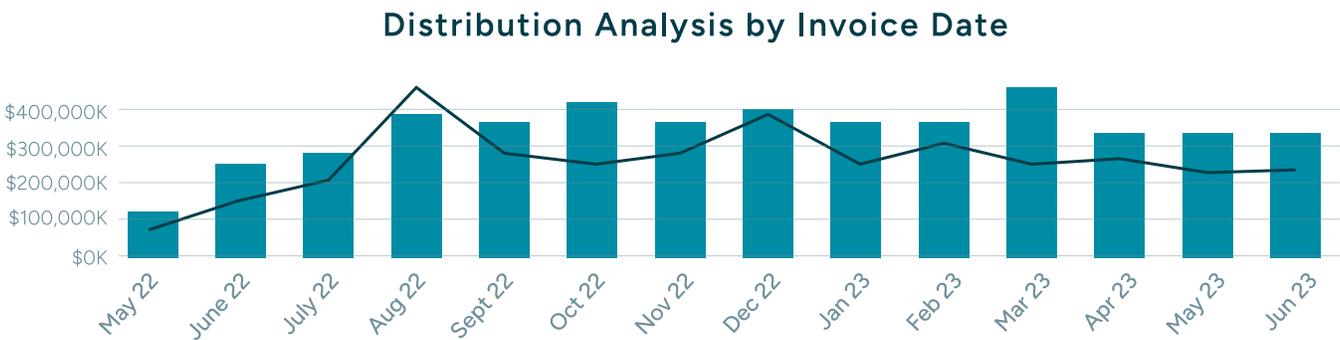


Figure 4 - The dashboard examples are helpful in identifying the vendors where early payment discounts are creating an impact and can potentially be optimized. This is one of the examples of how Oversight dashboards can help in strategic decision making.

By comprehending the financial implications of contract terms and vendor relationships, companies can align their procurement strategies with broader financial objectives, optimize spending, and use their contractual agreements as strategic instruments for cost savings and enhanced efficiency.

Strengthening Vendor Management

Navigating regulatory compliance via contract analysis necessitates an in-depth comprehension of legal and regulatory frameworks, such as the Foreign Corrupt Practices Act (FCPA) and regulations enforced by the Office of Foreign Assets Control (OFAC). These frameworks impose strict standards for business operations, particularly in international dealings, anti-corruption, and trade compliance. Contract analysis plays a pivotal role by methodically reviewing contractual agreements to ensure all terms, conditions, and clauses are in line with these legal mandates, thereby averting potential infractions and the resultant fines.

Effective compliance strategies that harness contract analysis involve an intensive examination of all contractual documents against the prevailing laws and regulations. This scrutiny includes a thorough review of vendor relationships and payment terms to identify any risk of non-compliance with anti-corruption laws like the FCPA or trade sanctions upheld by OFAC. Incorporating compliance checks into the contract lifecycle management process allows organizations to proactively discern and rectify compliance risks, ensuring that contractual obligations are fulfilled in complete alignment with regulatory expectations.



Oversight Contract Analysis module works with Oversight Compliance module to help you comply with regulatory compliance while strengthening vendor management. Below is an example of an FCPA violation with an overly expensive outing with a Politically Exposed Person (PEP).

Insight	# of Exceptions	Potential Impact (USD)
<input type="checkbox"/> Vendor Bank Account Validation	3	3,603.69
<input type="checkbox"/> AP FCPA Keywords	3	15,500.00
<input type="checkbox"/> AP Duplicate and Improper Payments	2	172,435.27
<input type="checkbox"/> Policy Misuse	1	2,900.91
<input checked="" type="checkbox"/> FCPA Political Exposure	1	923.82
<input type="checkbox"/> Vendor Fraud Risk	1	252.39

< 1 > of 1 page | Total Items: 6 | Total Exceptions: 11 | Potential Impact (USD) 195,616.08

Type	Priority	Confidence	Potential Impact (U...)	Status	Date Dete...	Owner	ID
<input checked="" type="checkbox"/> FCPA Politically Exposed			923.82	Under Review	2019-10-15 00:00	Karen Young	20000-00-0128000

< 1 > of 1 page | Total Items: 1

Description of Exception

Expensed purchase at [MOEVENPICK HOTEL SAIGON](#) has potential political exposure.

Report Name: KANIKA VN business Trip Expenses

Report Number: 3112325923-484492

Expense Line	Matched Item / PEP Name	Match Type / PEP Title	Country	Expense Type / PEP Type	Expense Amount / PEP Reason	Date	Expense Description / PEP Country Risk
	BUSINESS MEETINGS WITH TRUONG MINH TUAN MOEVENPICK HOTEL SAIGON	Description Match	Viet Nam	MEALS SELF	VND 20,616,459.00	Oct 1, 2019	Business Meetings with Truong Minh TUAN search translate
CIA - World Leaders	Truong Minh TUAN	Min. of Information & Communications	Viet Nam	Politically Exposed Person	Primary Name	Nov 7, 2018	High

Indicators

- ▲ Expense description has an exact name match to the PEP
- ▲ Expense country Viet Nam matches the PEP country
- ▲ Expense was in Viet Nam which is at high risk for corruption
- ▲ Expense for \$923.82 is exceptionally high for this merchant

Figure 5- Oversight can detect many different types of compliance risk including PEP interactions as shown above.

Supporting Strategic Negotiations

Facilitating visibility and straightforward access to contract particulars is essential for contract management and regulatory compliance.

Simplified access to contracts enables more rapid audits, improved compliance monitoring, and swifter resolutions to discrepancies. It also assumes a pivotal role in strategic decision-making.

Technologies such as Oversight's chatbot enrich this process by granting accounts payable and procurement professionals immediate access to contract details, which is essential for informed decision-making and leveraging historical data in negotiations.

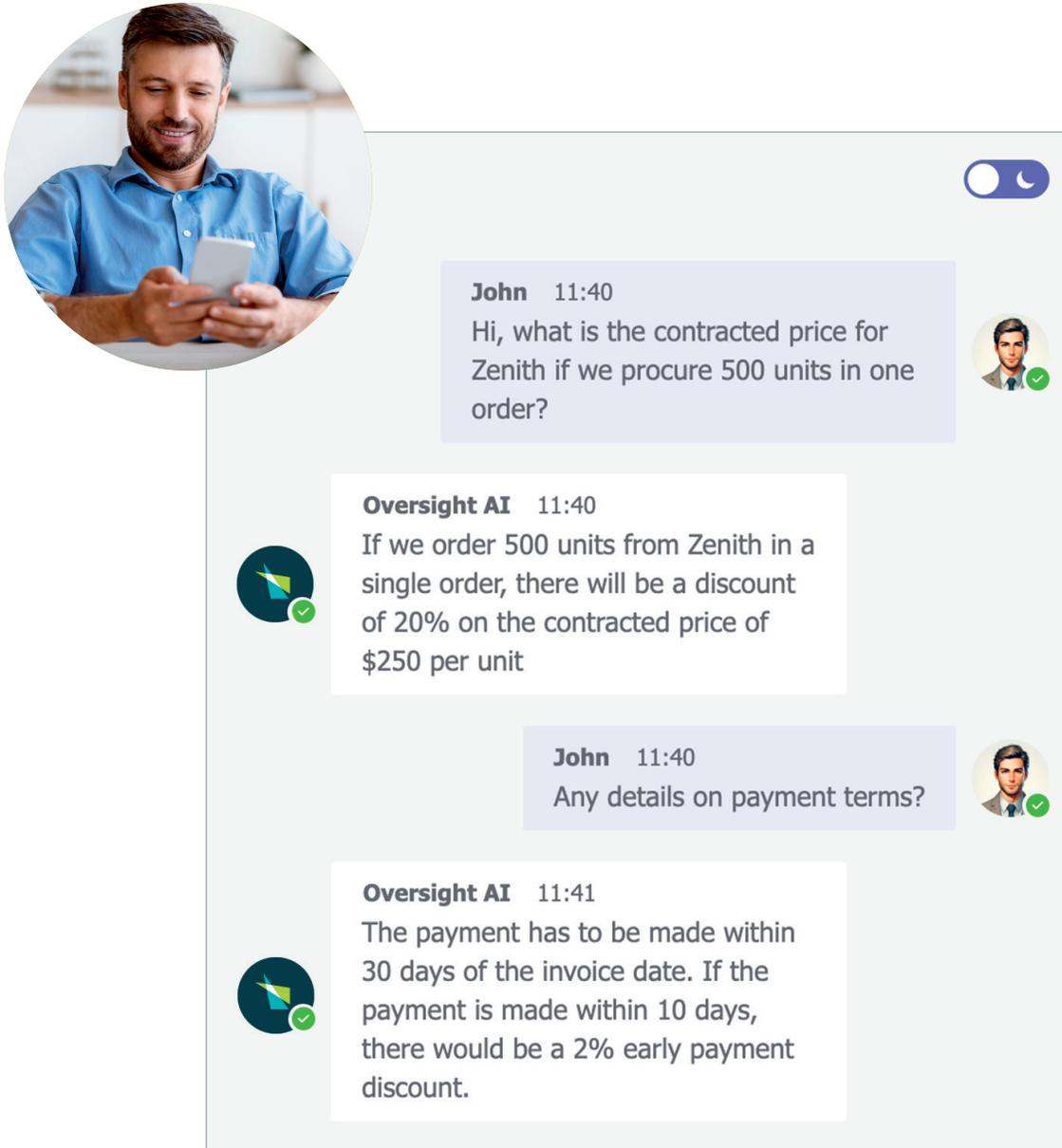


Figure 6- Oversight provides a chatbot to help query your contracts for faster decision making.

Conclusion

In conclusion the criticality of contract analysis in safeguarding an organization's financial integrity cannot be emphasized enough.

Effective contract analysis acts as a prevention tool against financial leakage, which can drain a significant share of EBITA. The strategic application of data analytics, vigilant compliance with regulatory frameworks, and the harnessing of advanced technologies like Oversight's solutions, are imperative in preempting revenue loss and capitalizing on negotiation opportunities.

Such systematic approaches to contract scrutiny and vendor management not only stave off potential non-compliance risks but also equip businesses with the insights needed to negotiate more advantageous terms in the future, thereby ensuring sustained fiscal health and competitive advantage.

References:

- McKinsey & Company. (n.d.). Contracting for performance: Unlocking additional value. Retrieved from <https://www.mckinsey.com/business-functions/operations/our-insights/contracting-for-performance-unlocking-additional-value>
- Business News Daily. (2023, October 17). What Is Contract Management? Retrieved from <https://www.businessnewsdaily.com>
- Gatekeeper. (n.d.). The benefits of contract management in numbers. Retrieved from <https://www.gatekeeperhq.com/blog/the-benefits-of-contract-management-in-numbers>
- Ernst & Young, Revenue Leakages in your company https://www.ey.com/en_be/consulting/revenue-leakage--how-do-you-identify-revenue-leakages-in-your-co

About Oversight

Oversight is the global leader in AI-powered analytics for identifying and eliminating F&A risk. Oversight leverages patented and proven analytical techniques to automatically uncover potential fraud, misuse, and errors, as well as hidden risks and patterns across travel & expense, purchase card and accounts payable data. Oversight AI maximizes audit efficiency and eliminates cash leakage enabling you to control your spend, ensure process integrity, and do it all with less effort.

To see our AI-powered platform in action, [request a demo](#).

360 Interstate N Parkway, Suite 300, Atlanta, GA - 30339
Oversight.com | +1 770.984.4600

