Efficiency Bulletin: 16-19
Contract Forensics

Implement contract forensics best practices to reduce accounts payable errors and strengthen contract compliance.

Addressees: Chief nuclear officers, NEI APCs and INPO APCs

Issue: SC-26, Contract Forensics

Summary of Efficiency Opportunity

- Desired end-state—Full contract compliance and negligible accounts payable errors under time and material (T&M), cost-reimbursable and unit price contracts.

- Value proposition (vision of excellence)—Cost-effective recovery of accounts payable errors. Identification and implementation of contract template and process improvements, which will result in more accurate payments made by the utility and increased net incomes.

- Why it is important?—The cumulative effects of accounts payable errors result in substantial costs to the utility and reduction of net income.

- Industry benchmark value(s)—Net recoveries have been between 0.20 percent and 0.54 percent of audited spend in the first year.

- Measure of effectiveness—Costs recovered as a percentage of audited spend on T&M, cost-reimbursable and unit price contracts.

Relevant Standards

- None
Guidance


Recommended Industry Actions

- Review the white paper and implement actions to align with the recommendations and best practices.

Change Management Considerations

Industry Activities

- Industry webinar to provide background for initiative, INPO discussion and provide an open forum to clarify expectations and ask questions. Webinar information can be found at the following site: https://web.inpo.org/Pages/Nuclear-Promise-Issues.aspx
- Discuss at Nuclear Supply Chain Strategic Leaders meetings.

Company Actions

- Implement a program to perform in-house or third-party audits, or enhance the program if already performing audits, to ensure contract compliance. This program should continue until the desired end state is achieved and maintained.
- Evaluate and implement, where possible, auditor recommendations regarding contract template improvements and process changes to address contract compliance gaps and audit findings. A future efficiency bulletin is anticipated to communicate contract administration best practices.
  - Document contract template improvements and process changes on the Nuclear Supply Chain Strategic Leaders SharePoint Site.
  - For access requests, please contact Adam Alberty, adam.alberty@starsalliance.com.

Guiderails

- Perform periodic audits to track and trend accounts payable errors with specific suppliers/vendors and utility invoice reviewers. Provide coaching and training with both parties until the desired behavior is achieved.

Report Your Site’s Results

Please report your company’s implementation of this improvement opportunity, including the date of completion. Send this information, along with your company’s point of contact, to EfficiencyBulletin@NEI.org.

Key to Color Codes:

Red: NSIAC initiative – full participation required for viability
Blue: Action expected at all sites, but is not needed for broad industry viability
Green: Utility discretion to implement, consistent with its business environment
Industry Contacts

- Industry champion for this issue: Brandon Zimmerman, 205-992-6418, bmzimmer@southernco.com
- NEI contact: Marc Nichol, 202-739-8131, mrn@nei.org
- On the web: www.nei.org/bulletin1619

Industry Approval:

Adam C. Heflin, CNO Lead

Anthony R. Pietrangelo, Nuclear Energy Institute
SUMMARY:
Contract Forensics is an approach to reduce the direct cost impact associated with Accounts Payable errors under time and material (T&M), cost-reimbursable and unit price contracts by strengthening contract compliance and enforcement through the use of in-house and/or external best practices.

TOPIC #1: PREVENTION
Given the difficulties and cost associated with identifying and recovering incorrect payments, the preference is to prevent AP errors prior to payment. The two forms of prevention currently being utilized in the industry are Contract Administration and AP technology/software.

A. Contract Administration
   a. Defined as the act of overseeing the performance of work by the contractor, including invoicing review and approval, for compliance with the contract. This is usually performed by the end user or project management group.
   b. Contract Administration is an industry issue due to limited engagement. The primary job responsibilities of the end user take priority and result in significant error on invoice reviews.
      i. It is anticipated that a separate efficiency improvement under Delivering the Nuclear Promise that focuses on best practices in Contract Administration will be developed at a later date.
   c. Dedicated Invoice Reviewers
      i. The costs of a dedicated invoice reviewer may be offset by the initial error avoidance in year 1, but will not be offset in subsequent years as improvements are implemented and/or behaviors are addressed with the supplier/contractor.

B. AP Technology / Software
   a. Detects a very small subset of AP errors, but numerous AP errors go undetected due to the vast array of AP errors that can be encountered and the lack of resources performing reviews prior to payment. For example, duplicate payments for the same service because the first invoice was 1001 and the second was 1001A. Furthermore, most AP software utilized is unable to accurately apply credits.

TOPIC #2: IDENTIFICATION
Given the lack of engagement in Contract Administration and the absence of quality AP Technology/Software, the industry has established a reactive approach to identify and address AP errors. Identification can be performed in-house or through the use of a third-party auditor.

A. In-House Opportunities
   a. AP Audit
      i. Defined as the anonymous data sweep of all AP payments to identify duplicate payments and outstanding credits.
      ii. Some utilities have previously attempted to build home grown software programs and algorithms but have ultimately been unsuccessful or not as productive as those utilized by third-party auditors.
   b. Contract Compliance Audit
i. Defined as the in-depth review of specific T&M, cost-reimbursable or unit price contracts.

ii. In-house reviewers may consist of the utility’s Compliance Group, Internal Audit Department and/or Contract Agents.
   1. Where resources are available within the referenced groups, the preference is to self-perform these audits to retain the full recovery identified as opposed to paying a contingency fee or lump sum to an external auditor.

      i. For contracts with Suppliers/Contractors:
         1. Pricing provisions need to utilize clear and unambiguous language regarding early payment discounts, volume discounts, Per Diem, mobilization/demobilization, T&M rates, unit pricing, markups, tax reconciliations, escalation/indices, etc.
         2. Contracts need to allow the utility (or third party auditors) to perform audits of invoices, supporting documentation, personnel records (may be limited to the individual’s pay rate, timesheets and home residence).
         3. Retention policy should be established to ensure that Suppliers/Contractors retain pertinent information for the period to be audited.
            a. The retention term should not be overly cumbersome (typically 3 or 5 years).
         4. Accounting/Audit provision should allow for collection, credit and/or true-up.

B. Third Party Opportunities
   a. AP Audits
      i. Can be performed routinely, in a timely manner and with minimal support from the utility.
   b. Contract Compliance Audits
      i. Prospective contracts are identified by the third-party auditor, but the contracts to be audited are at the discretion of the utility.
      ii. List is developed based upon volume spend, contract pricing mechanism and additional circumstances (e.g., PEICo, political environment and/or known financial constraints of supplier/contractor).
   c. Known Third Party Auditors
      i. Revenew, Inc.
      ii. Protiviti Inc.
      iii. Cost Recovery Solutions, LLC
      iv. AP Recovery, Inc.
      v. APEX Analytix, LLC
      vi. AMS-PAR
      i. For contracts with Suppliers/Contractors:
         1. See noteworthy contract provisions under Section A(c) above.
      ii. For contracts with Third Party Auditors:
         1. Expand Confidentiality provisions to include supplier/contractor information.
2. Clarify the third-party auditor’s level of engagement (or absence) during settlement negotiations between the utility and its suppliers/contractors.

3. Compensation mechanisms should be evaluated by the utility to determine the best manner in which the auditor will be compensated for the audit. The compensation mechanism should be based on the utility’s confidence with regard to the contract in question.
   a. Where the utility believes that AP errors will be minimal, the auditor’s compensation should be structured under a contingency fee structure based on recovery, not third-party findings.
   b. Where the utility believes that AP errors will be significant, the auditor’s compensation should be structured under a lump sum fee structure or a contingency fee structure based on recovery, but with a ceiling.

**TOPIC #3: POST–IDENTIFICATION**

To maximize the full benefit of an audit, the utility should: provide training/coaching to address audit findings; act on auditor recommendations; and periodically audit the contract to ensure continued compliance.

A. Audit Findings / Recommendations
   a. Utilities are strongly encouraged to implement any contract template improvements, process changes and/or recommendations identified as a result of the audits and share these with the industry on the NSCSL SharePoint site, [https://industry.starsalliance.com/_forms/Custom.aspx?ReturnUrl=%2fNSCSL%2flayouts%2fAuthenticate.aspx%3fSource%3d%252FSNCSCL%252FSHared%2520Documents%2520White%2520Paper%2520%2520%252D%2520Contract%2520Forensics%2520SC%2520%2520%252Epdf&Source=%2fNSCSCL%2FSHared%20Documents.com](https://industry.starsalliance.com/_forms/Custom.aspx?ReturnUrl=%2fNSCSL%2flayouts%2fAuthenticate.aspx%3fSource%3d%252FSNCSCL%252FSHared%2520Documents%2520White%2520Paper%2520%2520%252D%2520Contract%2520Forensics%2520SC%2520%2520%252Epdf&Source=%2fNSCSCL%2FSHared%20Documents.com).

B. Periodic Audits (In-House or Third Party)
   a. Frequency varies throughout industry from quarterly to biennial.
      i. Difficulties in reconciliation/settlement develop the older AP errors become due to personnel turnover, knowledge loss and changes in supplier/contractor status (mergers, closures and bankruptcies).
      ii. Therefore, frequency should be based on volume spend under the contract and the utility’s personnel and supplier/contractor turnover.
   b. AP Audits
      i. Best practices are to perform AP audits at a frequency no greater than eighteen (18) months.
   c. Contract Compliance Audits
      i. High Volume Spend Contracts
         1. Periodic audits should be performed semi-annually or annually
         2. In addition to routine audits, the utility should meet to:
            a. Identify top AP errors (e.g., incorrect billable class, overstated markup, failure to apply early payment discount, etc.) and track until those errors are no longer present in subsequent audit meetings. Then
evaluate and determine if additional AP errors are present. This process should be repeated until desired behavior is achieved.

3. The utility should also evaluate the data to identify the key contributors/invoice reconcilers and provide coaching or refresher training. Then evaluate and determine if desired behavior is achieved. If not, qualifications or access may need to be restricted.

ii. Mid and Low Volume Contracts
   1. Should be performed annually or biennial

CONCLUSION
Application of the best practices above varies from utility to utility based on the current processes, systems, programs and strengths within the utility. However, no singular approach should be implemented, but rather a hybrid approach utilizing all topics herein. Furthermore, the approach should be evolving as findings become less evident.