

# A Sense of What Is Possible

A leading power utility reaches for transactional  
efficiency

## Customer Profile



**V E N T A N A**  
R E S E A R C H

*Aligning Business and IT to Improve Performance*

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## In Search of A Definitive Solution

One of America's leading power utilities produces and sells electricity to more than 5 million customers in 11 states. The 100-year-old, publicly held company owns the nation's largest electricity transmission system and operates eight regulated regional utilities. Thus, like any public company, it must handle its financial affairs efficiently and profitably and report on them to shareholders and regulatory agencies; it also has to demonstrate that its financial practices comply with an array of regulations that govern issues related to rates for service, spending oversight and economic development.

In the course of its activities, the company contracts with suppliers of all kinds, receiving, processing and paying thousands of invoices every week. Its accounts payable group on average processes up to 4,000 vouchers, cuts 2,000 to 3,000 checks and sends 200 to 300 wire transfers every business day. The challenge with such a heavy volume of daily transactions is the risk of creating duplicate invoices and paying for goods and services more than once; duplicate invoices can become an intractable and costly problem.

To deal with this significant problem, management's first effort was to engage third-party auditors to find the double payments so it could begin the process of recovering the funds. But the corrective process itself was expensive; the utility paid on average \$700,000 per year in auditors' commissions.

The company made some progress in reducing the number of duplicate payments, but the chronic problem continued to consume dollars, manpower and time. By 2003, the team had succeeded in reducing the duplicate payments by more than half per year and the auditors' fees to about \$300,000. But the substantial amount still being paid out motivated the accounting group to look for a definitive solution.

## A Need To Do Better

The company's director of accounting services considered this a serious problem. In 2003, he heard from the vice president of the company's internal audit group that software from Oversight Systems might be able to help. The director met with Oversight's representatives, and they agreed to work together toward a solution.

Oversight's software is designed to work with a variety of enterprise resource planning (ERP) systems, and this capability was the initial attraction for the accounting group. "We are a PeopleSoft shop, and they said their product supported PeopleSoft Financials," the director recalls.

At the time, the company was trying to eliminate duplicate payments by using the rudimentary audit-checking capability in its PeopleSoft system and running custom queries searching for like amounts, duplicate invoice numbers or the same dates. The usual process was to run these manual reports at the end of the day, but by then duplicate checks often had gone out.

Adding a new application to a critical business system is not done casually, though, especially when a large volume of financial transactions is involved; Accounts Payable at the company makes 700,000 to 800,000 payments yearly.

The Oversight project originated with and was driven by finance professionals, not technologists. Its champion was the director of accounting services. In fact, the utility's information technology department was skeptical about the deployment. "IT was concerned that somehow it would impact the network traffic or performance of the financial database," says the accounting services director.

To address the concerns of the IT group, Oversight conducted an extensive pilot project for three months, run in test mode separate from the company's production systems. Both business users and IT staff rigorously compared the parallel results, and all agreed that the system dedicated to tracking duplicates had proven its value.

"During the test, we continued to run our custom queries and compare what the queries were telling us to what was occurring in Oversight. Oversight gave us more than the custom queries did and did not miss anything the custom queries found," the director says. The comparison continued after the system went into production, with the same results.

On the IT side, staff found only good: Not only does Oversight not reduce network performance, but users supply the parameters for their own analytics, so IT now gets fewer requests to modify queries and can concentrate more on its core responsibilities.

The newfound capabilities opened eyes among the AP staff. "We thought we were doing a pretty good job, but once we got Oversight we found we could do a lot better," says the accounts payable manager who led the implementation.

## The New Process

Working better was particularly important because of the unceasing demand to clarify information and act promptly. "A lot of places only cut accounts payable checks once or twice a week. We do it daily, and we reconcile daily," the AP manager says. The revised task of ferreting out potential duplicate payments is much more efficient and effective. "Our workflow has changed dramatically," he asserts.

As noted, previously the company would identify duplicates only at the end of the day, frequently after a second check had been mailed. Now, because Oversight continuously monitors the PeopleSoft database, fresh reports are waiting when staff arrives in the morning. "Before we let any checks out of here, we look over the Oversight report," says the AP manager. Oversight presents possible duplicates automatically. These days, the utility seldom cuts duplicate checks, but when it does, Oversight spots them before they are mailed. The process works similarly with wire transfers.

The custom queries that AP staff used to do in looking for duplicate payments worked reasonably well. However, they were time-consuming to create, difficult to modify and tedious to review. Oversight, in contrast, includes a feature called Workbench that automatically routes exceptions to the appropriate person, tracks their status and stores notes on the disposition of exceptions while logging all activity related to exception-handling. Using the Workbench has shortened the time needed to resolve exceptions, speeded up query responses and made results easier to sort and customize, users say. For example, now it's easy to reuse Oversight reports to satisfy various auditing requests. The software records all exceptions and

their resolutions in a permanent journal, which users can report on and give to auditors. When they ask for certain information, the AP manager says, “you can run a report and then, by sorting it, give the auditors what they want very quickly.” Oversight enables AP to download the information into an Excel spreadsheet, which is the format most auditors prefer, he adds.

Oversight also proved flexible in incorporating valuable aspects of the old system, which allowed the company to retain what worked and minimized disruption for users. “Some of the things that we’ve built into Oversight we were running as custom queries against the database,” the accounting director explains. “The queries actually worked well, so Oversight’s only replicating what the queries did, but Oversight brought automation so that they run on a scheduled basis. We don’t have to do it manually, and the results are written into the database, not stored separately.”

The director reports that regular users tell him they are pleased with the new system, finding that it is easier to use, involves much less manual effort and produces more valuable results than the custom queries. He also has his own reasons. “What I like about Oversight is I was able to identify and quantify all the work we were doing very easily, and then I could say to management, ‘We investigate these transactions every day, and here are the results.’”

## Benefits Delivered

Formerly the company had two people dedicated full-time to looking for duplicate payments; now, aided by Oversight’s analytics and the efficiency of the Workbench, three people spend only two hours each per day, and normally for part of that time they are refining and sharing their knowledge of how to use the software.

Implementing Oversight has produced other quantifiable savings of time and money for the utility. AP found that it could further reduce the \$300,000 in recovery fees to \$100,000. In each of the last two years, it has continued to reduce these fees by approximately \$20,000 more. Saving two-thirds of what it paid to external auditors was a convincing argument in favor of adopting Oversight permanently. “Purely from a business case, eventually when we moved to purchase Oversight, from the reduction in what we were paying for our duplicate payment recovery audit, I could pay for what it was going to cost us to implement Oversight,” says the director of accounting services.

As well as finding real duplicates and greatly reducing time spent searching for them, the Oversight system also cuts down on false positives – invoices that appear similar but in fact are different (and therefore require no action). This kind of search consumes time and effort but often yields no tangible benefit. “It was one of the main problems with the in-house systems,” the AP manager notes. Oversight’s Workbench identifies false positives as such and enables users to verify that at a glance.

Reducing duplicate payments also helps the company with cash management. Because many dollars are not paid that have to be recovered later, Finance avoids drawing on credit lines for liquidity and eliminates what amounts to interest-free loans to suppliers that are paid twice. And Oversight makes it easier for AP to meet

criteria for getting discounts from vendors for prompt payment by alerting the appropriate people when such deadlines approach.

## Control and Comply

Oversight also enables the company to provide more transparency in all its accounting practices. In particular, it saves time and effort when the auditors come in. “Every control we put in is one less control we’ll get tested for in our quarterly audits,” the AP manager explains.

Compliance with regulatory statutes such as the Sarbanes-Oxley Act is much simpler because Oversight reports are already on hand to show that the company has adequate controls in various aspects of finance that auditors want to see. “When we give an auditor or somebody else access to the system, it’s all transparent to them,” the director says. “If Auditing wants to look at what we are doing and what controls we have in place, they can look in Oversight because everything is written to the journal. It makes a very good testable control from an auditing standpoint.”

In addition, he continues, “The documentation of the controls being executed is visible from an auditing standpoint, and we can obtain all the transaction history without problems.”

Oversight helps set business rules for how to structure reports and present information for auditing. Accounting Services has told Auditing, the director says, “If you want us to look at anything else, give us the rule, and we can do that within Oversight.”

The Workbench also helps the department prepare for audits related to Sarbanes-Oxley requirements. “It helps us when the internal auditors come in twice a year and also with external auditors that look at those reports,” the AP manager says. “It prevents us from having to do additional testing because they know Oversight is testing or reviewing things daily.”

Along similar lines, AP uses Oversight to clean up the database, correcting wrong or conflicting vendor names or addresses as well as other errors. This makes it a more reliable source for 1099 reports and others that the IRS requires. “The thing everybody [in AP departments] says they have the most problem with is the vendor file,” the AP manager insists. There are a myriad of ways in which vendor information can become corrupted, out of date or just plain incorrect, from a space between words (or not) in the company name to a listing for a company that no longer exists. As it does with duplicate invoices, Oversight compares entries that are similar and calls users’ attention to possible errors. It also keeps the list of vendors current; when a vendor has been inactive for 18 months, Oversight automatically removes it from the file.

## Expanding The Limits

Finding duplicate payments by AP wasn’t the only inefficient, costly manual process in the accounting department. After Oversight had been running in AP for about one year, Accounting Services expanded its use to two other sections.

Accounts Receivable began to monitor billing and receivables in much the same way as AP does. Staff makes sure that payments are received and also posted to the AR system.

The Employee Expenses section of Accounts Payable is responsible for the expense reporting system for the entire company. The utility spends more than \$70 million annually on the single company credit card account. Of its more than 20,000 employees, about 11,000 are permitted to use the company credit card, and AP considers some 6,000 of those to be heavy users who either purchase materials or travel on a consistent basis. The number of charges per day normally ranges from 1,800 to 2,500, and the expenses group runs on average 1,200 reports a week.

Employee procurement transactions are much smaller than in Payables, averaging about \$125 each, so duplicates are not as costly a problem. But the Oversight deployment yielded significant time savings; the efficiency of the Workbench relieves managers and auditors from spending hours monitoring relatively inconsequential matters that nevertheless must be tracked and verified. Staying on top of these transactions is necessary to demonstrate that the company has rigorous financial controls.

At the same time, having Oversight's tracking and comparison capabilities in place assures management that employee spending is under control. "Travel expenses are one of those things that people in management seem to have great suspicion about," the director of accounting services notes. "When we compare how much time we spent on implementing Oversight and what we can identify by using it, we believe it pays for itself."

It does so by addressing a familiar problem: incorrect expensing. Finding reimbursements that shouldn't have been made but were, or duplicate payments when the vendor also billed the company directly, used to be "a hit-and-miss proposition," recalls a senior staff accountant in the expenses group. "We basically would have to just come across them." And when this did occur, time-consuming exchanges with the employee would ensue until the issue was finally settled, often "a month or two after the fact," he says.

Now the situation is dramatically improved, as Oversight tracks information employees enter in the company's expense reporting software. Users get daily alerts in the Workbench user interface and also can have reports sent by e-mail. "When somebody completes an expense report that has an out-of-pocket charge," the senior accountant explains, "Oversight goes back and reviews all their data within 30 or 45 days, looking for anything that has close to the same dollar amount. Then it allows us to compare the expense report to the out-of-pocket." Users no longer have to access more than one application to do this because the Oversight system analyzes and displays data from multiple systems within the Workbench interface.

For the expenses function, adoption of the Oversight software not only improved a rather ineffective existing process, it brought new capabilities the group did not have before. It enabled the team to create business rules that employees can't violate without Accounting knowing what they've done. For example, the company has a policy that employees must book all airfares through the in-house travel section. In the past, this was hard to enforce; employees making reservations online made scheduling mistakes and ended up spending more than necessary for flights. But Expenses uses Oversight's analytics to examine the Standard Industry Code numbers

that charge-card providers and banks use and to flag any direct transaction with an airline or online reservations service.

Expenses also used Oversight's analytics to help the supply chain group curtail a practice called "chaining." Some employees connived with vendors to circumvent the corporate dollar limit on transactions for purchased material by making two or more invoices, each under the limit, for what was really a single purchase. Oversight identifies such instances by recognizing vendor names, dates and amounts. In general, the senior accountant says, "It's made us more aware of things that can go on with the credit card."

In all, after starting with two people in AP, the utility now has 14 Oversight users in Payables (monitoring both checks and wire transfers), Receivables and Expenses. The users include both line workers tracking the data and managers overseeing those processes.

People still make mistakes; duplicate invoices still get created, and incorrect expensing still occurs. But now the electric utility can deal with them proactively and minimize their effects. Accounting continually looks for ways to expand its use of Oversight. Managers say they expect to derive more value the longer the company uses the software. "As you use the system, you think of new things you can do," the AP manager says. "It opened up our sense of what is possible."

## **ABOUT VENTANA RESEARCH**

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