



E-book:

# Root Cause Analysis: The Vital Ingredient In Today's Recovery Audit

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**PRGX<sup>®</sup>**

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# Root Cause Analysis: The Vital Ingredient In Today's Recovery Audit

Getting to the root of the problem. It's an age-old value recited again and again by professional trouble-shooters of every kind.

From plumbers to engineers, detectives to accountants, conducting analysis to understand the underlying reason why something went wrong - and how to stop it from happening again - is fundamental to success.

The same holds true for recovery audits. They've become a go-to mechanism for recouping losses that happen due to erroneous payments and invoice errors. But useful as they are for getting back lost

Finance teams have always had to strike a balance between stopping leakage and staying efficient. In a big company where thousands of invoices are paid each month, reviewing every single one manually is a practical impossibility.

That's why recovery audits became best practice. What's changed is the speed at which audit information can be turned into useable data and the insights that can be gained.

money, wouldn't it be better if the money never left at all?

With five decades of practice, recovery auditors can uncover hidden factors that create conditions where profit leakage can recur and spread. By applying proven methodology, data analysis, and the expertise only decades of experience can deliver - these factors can be pinpointed and dealt with.

The growing ability to stop errors and loss before they happen is changing recovery audit from a retrospective to a proactive exercise. Root cause analysis is fundamental to the shift.

Decades of experience combined with advances in technology are enabling auditors to go further - to use what they learn, and uncover underlying issues within finance processes that let overpayments slip through. When these are addressed, sustainable long-term controls can be implemented to stop losses before they happen.

# What Is Root Cause Analysis?

Root cause analysis is the process of discovering the underlying sources of leakage to identify process weaknesses and the recommendation of solutions to correct them. By finding what's causing erroneous payments in the first place, accounts payable, finance, and commercial teams are in a better position to stop them from happening at all.

It's much more effective to systematically prevent and solve invoice errors at their source, rather than continually looking backwards to recoup past losses.

Root cause analysis is performed using a blend of best practice methodologies, data analysis tools, and auditor expertise to

identify the sources of an event or trend. It looks beyond superficial causes (e.g. human error) to show where processes or systems failed — or potentially created the issue to begin with.

## **In recovery audit, root cause analysis has three key goals:**

- 1. Discover the source of each invoice error**
- 2. Understand how to stop errors from recurring**
- 3. Use what you learn to stop similar errors from recurring in the future**

# Benefits Of Root Cause Analysis

In recovery audits, root cause analysis is used to design or modify financial controls in a way that proactively removes the risk of errors from recurring. Instead of just treating the symptoms of leakage, root cause analysis might focus on a particularly claims-prone vendor or purchasing category, and suggest additional checks before any payment within those parameters is confirmed.

Recovery audits are an effective way to identify past leakage and recoup losses through claims. The number of errors uncovered can be significant, but the volume of claims generated by traditional audits can obscure the fact that many mistakes are recurring. By diagnosing the real root cause of a problem, you can cure it instead of endlessly treating its symptoms.

# Where Does Root Cause Analysis Sit In The Process?

The volume of data in recovery audits now provides a rich ferment for analytics, but without a methodology for sifting through it, the sheer volume of information would be overwhelming. Valuable information could be overlooked, and that could yield a greater return on investment.

To ensure nothing is missed, at PRGX, we take audits forward using a five-stage process:

1	<b>Audit planning:</b> Agree on project objectives and build a reliable collaboration between the recovery audit partners.
2	<b>Data acquisition:</b> Ensure the efficient identification and transfer of data. At stage 2, it's vital to ensure that your recovery audit partner is tracking the information you'll need for later analysis.
3	<b>Discovery and audit plan development:</b> Identify potential process gaps while promoting an efficient and effective plan so the audit execution can be delivered with minimal impact on operations.
4	<b>Validation and recovery:</b> Recovery teams reach out to vendors and begin the process of submitting claims and recouping losses.
5	<b>Reporting and continuous improvement:</b> Steps one to five have traditionally been the main focus because they return cash quickly to the bottom line. But as audits become more proactive than reactive, step six has become a powerful source of long-term value.

That is where root cause analysis is applied. It looks at the data generated in steps one to five and uses it to identify what caused the claim to begin with. Root cause analysis allows recovery auditors to look at how these errors can be stopped, whether they arise from a system issue or failing, a process issue or failing, or a training issue for specific individuals.

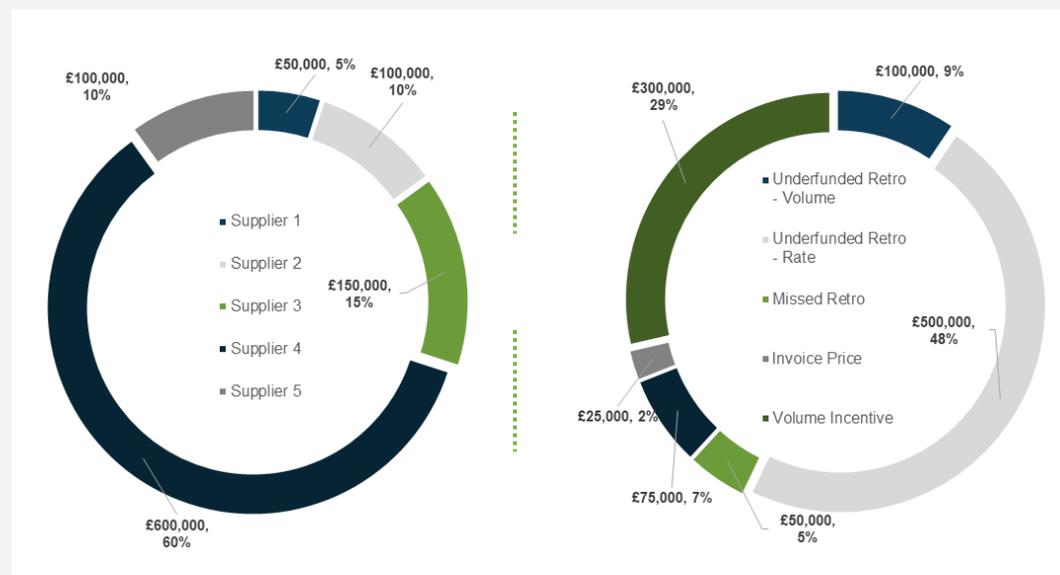
# How PRGX Conducts Root Cause Analysis

We will be looking at the PRGX standard practice for root cause delivery. This reporting can be tailored to fit an individual client's needs and requirements. As well as being divided – which we will go in to more detail about below – clients can also provide input as to what details they want to see to support the root cause analysis.



## Top-level overview

At PRGX, our auditors begin root cause analysis with a top-level overview of all the claims successfully recovered. Claims might be divided into category, department, and claim type to identify where larger monetary amounts are being lost.



The claim type is derived from the reasons that leakage can occur. For example, in a retail setting, that could include underfunded retro payments on volume and rate, volume incentives, and un-credited returns.

From those basics, the overview can be broken down further to include things like year-on-year analysis that make trends in leakage more visible. Are there considerable spikes in a particular area? If so, that would indicate the need for a deep dive to review why that leakage is happening.

# How PRGX Conducts Root Cause Analysis



## Category-level

The next layer of root cause analysis is the category level. At this stage, if there is a higher number of claims occurring from a particular category, trading area, or claim type, auditors are advised to take a closer look at where and why these claims are arising. Category-level analysis can be tailored to suit a client's specific requirements, depending on the data available.

Auditors would look at who the key suppliers are in the category, and how much of the recovery profile they account for. Volume analysis is essential. Is one large claim skewing the result, or are there numerous claims involved creating a pattern as to why they've arisen?



## Claims-level

The final level of root cause analysis is claim-level analysis. At this stage, auditors delve into the specifics of individual claims to uncover precisely what the root cause has been. The aim is to highlight common issues in particular claim types, and whether or not these occur across suppliers, or if they're specific to one vendor.

## Big Savings Often Start Small

Once a systemic or process issue is found to be causing multiple claims, root cause analysis can branch out to uncover further leakage points, either within the spending category or elsewhere in the business. The insight and value gained from root cause analysis is more valuable the closer we are to transaction. From a few small initial findings, by the end of the process, significant savings can result.

Root cause analysis is also a cyclical process. Once the claims-level analysis is complete, it's vital

to update reporting to ensure errors don't recur and then looking at the top level again to identify new areas in need of attention. The benefits offered by root cause analysis complement our services, working together to accelerate the process and advance insights to customers. In that sense, root cause analysis is turning recovery audit into a process of continuous improvement, and plugging as many leaks as possible rather than chasing the drops.

## About PRGX

PRGX helps companies spot value in their source-to-pay processes that other sophisticated solutions didn't get to before. Having identified more than 300 common points of leakage, we help companies reach wider, dig deeper, and act faster to get more value out of their source-to-pay data.

We pioneered this industry 50 years ago, and today we help clients in more than 30 countries take back \$1.2 billion USD in annual cash flow.

It's why 75% of top global retailers and a third of the largest companies in the Fortune 500 rely on us.

**For additional information on PRGX, please visit: [www.prgx.com](http://www.prgx.com)**