

The logo for SC&H Group, featuring the letters 'SC&H' in a white serif font on a dark blue square background.

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GROUP

# WHY SHOULD YOU MAKE CONTRACT COMPLIANCE PART OF YOUR CORPORATE DNA?

PUT YOUR CONTRACTS UNDER THE MICROSCOPE  
TO INCREASE COMPLIANCE, BOOST MARGINS,  
AND ENHANCE RELATIONSHIPS

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Third party relationships are paramount in today's business environment. Companies rely tremendously on third parties to execute business objectives, and contracts serve as the foundation that defines the terms and conditions of these relationships.

Contracts define responsibilities, compensation and risk so companies invest significant time, energy, and resources to negotiate the best possible contract terms. But, are you monitoring compliance? Do you have a dedicated contract compliance program in place to confirm that your contract terms and conditions are being met - and your relationships are operating as intended?

Even highly successful companies can overlook cues which often equate to liabilities and lost profits. This is why SC&H Group recommends contract auditing be an integral part of your corporate DNA.

What would happen if you put your contracts under the microscope? Proactively taking extra steps to establish processes, checks and balances, and systems can strengthen contract management, vendor relationships, and pay dividends.

## PROCUREMENT – PROTECT THE BASE OF YOUR CORPORATE DNA

Procurement's critical role within organizations is gaining increased attention from senior finance and operations executives. For instance, companies can spend up to 30 percent of revenues on indirect goods and services. Indirect spend is often fragmented across hundreds of subcategories - each with their own characteristics - and is often sourced by different individuals throughout the corporation.

Often, matching spend data to contract terms and conditions, or matching fees to actual time incurred on a project, can be a cumbersome process. Combine hundreds of spend categories and subcategories and multiple third-party charges across disparate departments, and the process becomes even more complex.

While the most robust and most frequently used accounting systems are very effective at controlling spend for tangible items through a three-way match, the match is not as effective of a control when a contract is cost plus, or when costs are changing on a daily basis. So, how do you truly know if you are paying correctly for goods or services that do not have a specific unit price and quantity?

## THE DNA OF AN AUDIT - TRUST, TRANSPARENCY, TEAMWORK



**“Trust is the glue of life. It’s the most essential ingredient in effective communication. It’s the foundational principle that holds all relationships.”**

**- STEPHEN COVEY**

Despite their best efforts, sometimes the stakeholders who were involved in the procurement process do not have the time or the resources to monitor compliance in addition to executing their day to day job responsibilities and/or other priorities. If stakeholders are focused on executing their day to day responsibilities and additional resources are limited as common today in the cost cutting environment, contracts can be “out of sight, out of mind” until an issue arises. Those challenges can be exacerbated by turnover. The stakeholders involved in the process or negotiations may not be around a year or two later when questions arise.

Contract compliance audits provide companies with the ability to review performance to make sure both parties are adhering to the negotiated terms. Audits also provide a unique opportunity to enhance transparency and align expectations.

Transparency is the foundation of trust, and trust is critical to ensure healthy relationships. Contemplating or conducting contract compliance audits increases transparency, validates expectations, and reduces assumptions. More productive relationships and enhanced performance drive earnings.

## CONTRACT COMPLIANCE AUDITING – THE GENE FOR GOOD GOVERNANCE

Contract compliance audits are an integral part of good governance. Why? Financial leakage reduces shareholder value.

Frequently, approvers and other personnel are focused on budget. If the amount paid or received is within budget and the product of service was delivered, the transaction is approved and recorded. Contract compliance audits provide an independent review of information that may not have been provided to the approver during the course of day-to-day business. A contract compliance audit validates the pricing and other terms of an agreement were followed. The contract compliance audit can also uncover areas for improvement to strengthen vendor relationships.

By making contract compliance audits an integral part of your corporate DNA, you can mitigate financial losses associated with contract non-compliance and uncover contract risks that often go undetected. This process plays an essential role in helping to build and protect shareholder value. Contract compliance audits typically result in financial savings averaging 2-4 percent of the transaction value audited.

## HOW AUDITS CAN POSITIVELY INFLUENCE BEHAVIOR



**“Act as if what you do makes a difference. It does.”**

**- WILLIAM JAMES**

Performing contract compliance audits not only increases shareholder value, but stakeholders also benefit from the experience and gain recommendations for best practices.

Executing routine contract compliance audits can create a “sentinel effect” as stakeholders understand, experience, and learn from contract compliance audits. Lessons learned are incorporated into behaviors and the stakeholders closest to the contract can implement key takeaways into their day to day activities. As a result, companies see more proactive engagement by all stakeholders. The benefits ripple through the organization and are contemplated from the start of the original contracting process through the day to day interactions of the involved stakeholders.

For example, as a result of a contract compliance review of a global manufacturer's marketing agency, the client benefited from hard dollar savings – and process changes were implemented at both the company and the agency to reduce leakage moving forward. The client and agency reconfigured how estimates were developed and reconciled by implementing simple recommendations that did not negatively impact the day to day business. This exercise created a “win-win” for all parties.

## GETTING STARTED WITH YOUR DNA CONTROLS

The prospect of implementing a routine contract compliance audit process can appear to be daunting – especially if do not have an ongoing program established.

“If a client does not have a program in place, we recommend starting small – begin with a smaller proof of concept”, explains Bill Adams, Director of SC&H Group's Contract Compliance Audit Services. “For example, a well-executed pilot program that touches on several different contracts or spend categories can provide the evidence to secure stakeholder buy in. The results of the pilot will often underscore the need for a broader recurring initiative.”

Contract compliance audits should result in tangible results with little to no impact to already strained resources. If you are not sure where to begin, a third party auditor can help you get started. “We understand and respect concerns about the time, energy, and cost involved with conducting a contract review,” Adams explains. “Our team can help quickly identify the highest risks by performing an opportunity review. A well-crafted strategy makes the process more effective and efficient. Our objective is to show you how seamless the process can be.”

Just as excellent customer service and superior quality are goals for many organizations, we believe it is prudent to integrate contract compliance audits into your corporate DNA. This integration process doesn't have to be disruptive, antagonistic, or even difficult. And, when this process is fully incorporated, the effects can be replicated across the organization to increase savings opportunities, validate compliance, and improve vendor relationships and transparency.

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