

ARMANINO

Cash In On Your Contracts: Strategies to Maximize Third Party Value

WELCOME

Presenters

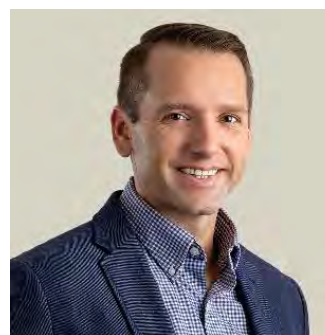


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WELCOME

Learning Objectives



Identify key contract components that impact your bottom line



Develop a systematic approach to auditing contracts effectively





Approaches to financial recovery

OBJECTIVE 1:

Identify key contract components
that impact your bottom line

UNDERSTANDING THIRD PARTY CONTRACTS

Identify Key Contract Components

-  Negotiated Payment Terms & Timing
-  Invoicing Terms
-  Shipping Terms
-  Delivery Terms
-  Pricing & Other Incentives

UNDERSTANDING THIRD PARTY CONTRACTS

Identify Key Contract Components



Payment Timing

- Payment Terms
- Late Payment Penalties
- Advance Payment / Deposit / Retainer / Early Milestone

UNDERSTANDING THIRD PARTY CONTRACTS

Identify Key Contract Components



Invoicing Terms

- Form/Format
- Consolidation
- Frequency
- Visibility

UNDERSTANDING THIRD PARTY CONTRACTS

Identify Key Contract Components



Shipping Terms

- Packaging/Labeling
- Loading/Unloading
- Transit
- Insurance & Liability
- Transfer of Ownership

UNDERSTANDING THIRD PARTY CONTRACTS

Identify Key Contract Components



Delivery Terms

- On Time Delivery / Delays
- Damage Goods / Expired Goods
- Incorrect / Incomplete Shipments
- Returns & Refunds

UNDERSTANDING THIRD PARTY CONTRACTS

Identify Key Contract Components



Pricing

- Cost Changes
- Price Changes/
Updates/Adjustments
- Discounts
- Rebates

OBJECTIVE 2:

Develop a systematic approach to auditing contracts effectively

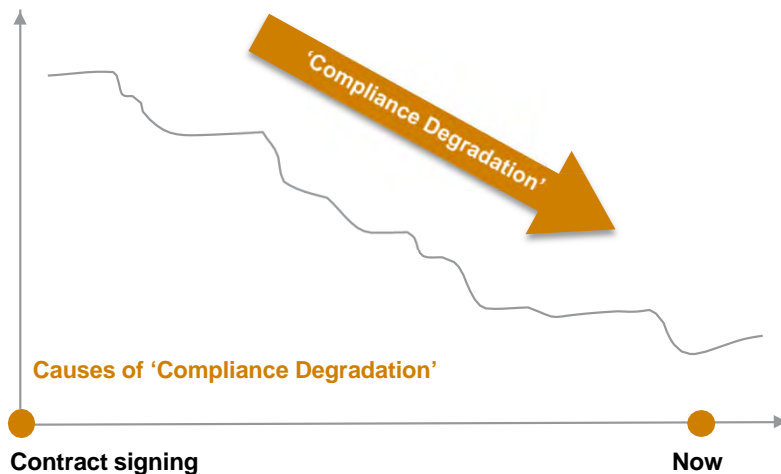
Develop a systematic approach to auditing contracts effectively

Why Audit?

AUDITING THIRD PARTY CONTRACTS

Why Audit?

Level of contract compliance



Causes of 'Compliance Degradation'

- Poor operational understanding of contracts.
- Operational changes not reflected , leading to ambiguous terms.
- Complex or ambiguous goals
- Poor processes and controls.
- Changes in staff.
- Reporting weaknesses.
- Contract changes not accurately reflected in documentation.
- Complex role and responsibility matrix related to management of contracts

Benefits of Third-Party Assessments

- Cash recoveries.
- Identify process and contract improvement opportunities.
- Enables third-parties to confirm compliance with terms.
- Better understanding of third-party data, systems and challenges.
- Opportunity to improve third-party relationships.
- Demonstrates good corporate governance to stakeholders.
- Educate third-parties on obligations and reduce future non-compliance.

AUDITING THIRD PARTY CONTRACTS

Why Audit?



Importance of reviewing historical contract performance & (in)efficiencies

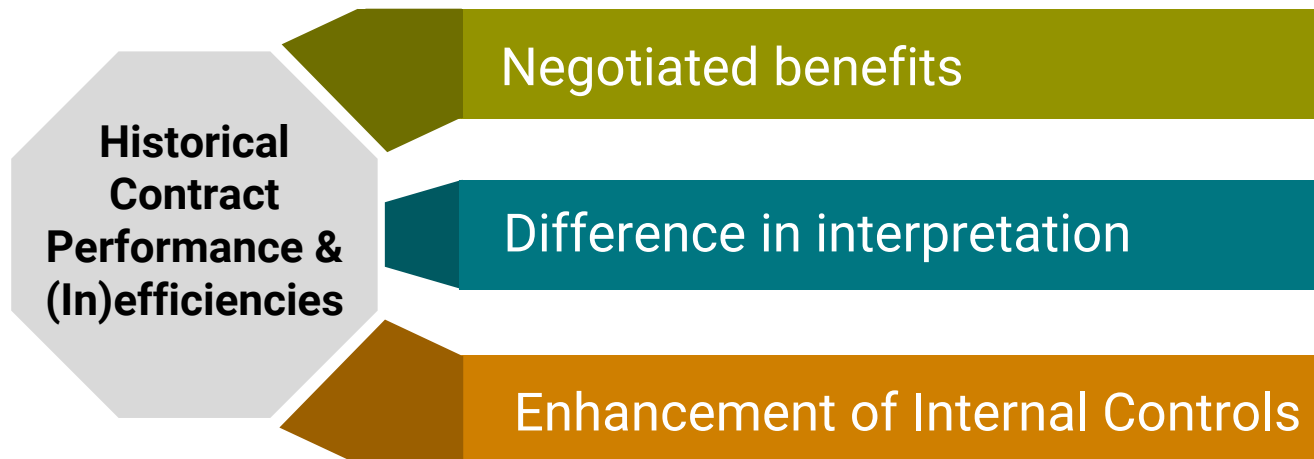
Identifying overcharges, missed opportunities for savings

Identifying third party performance metrics

Creating Culture of Compliance

AUDITING THIRD PARTY CONTRACTS

Why Audit?



AUDITING THIRD PARTY CONTRACTS

Why Audit?



AUDITING THIRD PARTY CONTRACTS

Why Audit?



Performance Metrics (SLAs/KPIs)

- Ensuring compliance with agreed-upon terms
 - Visibility into Performance Measurement
- Identifying areas for improvement
- Penalties / Credits / Bonuses / Fee at Risk / Other Incentives

AUDITING THIRD PARTY CONTRACTS

Why Audit?



Develop a systematic approach to auditing contracts effectively

How to Audit

AUDITING THIRD PARTY CONTRACTS

How to Audit



Internal Alignment on Audit Goals,
Objectives & Methodology



Third Party Risk Assessment



Accounts Payable Audits

AUDITING THIRD PARTY CONTRACTS

Internal Alignment: Initiation

What is the purpose of the program?

- What do you want to achieve?
- Acknowledgement and correction of past shortcomings
- Process improvements needed

Who is sponsoring the program?

- Executive sponsor can impact perception within the organization.
 - Procurement / THIRD PARTY management
 - Internal Assessment
 - Finance
 - Sustainability Compliance

Is this a 'nice to have' or mandated?

- Is the program going to be mandated, 'suggested', or offered as a service?
- Collaborative approach with:
 - Internal divisions
 - Customers
 - Third parties

Why me?

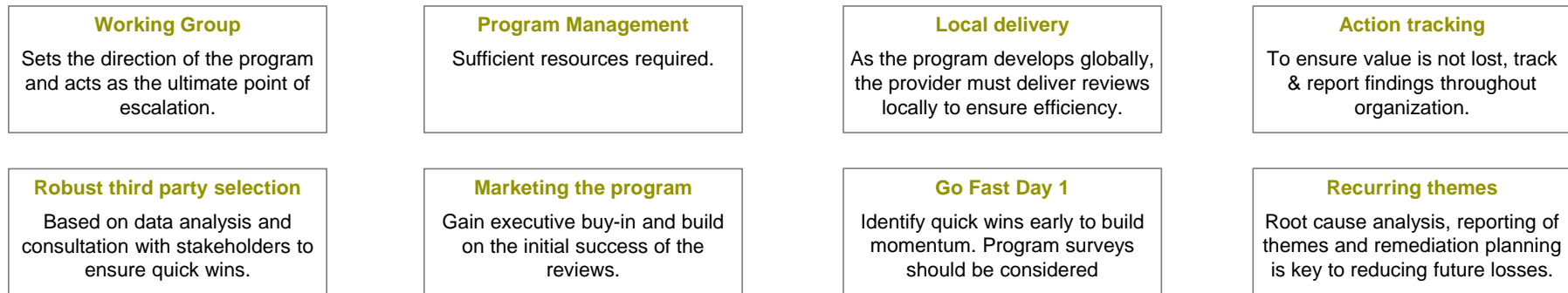
- The program must be able to answer (both internally and externally) the reasoning behind selection.
- The third-party assessment program is part of a wider governance agenda in ensuring that you have sufficient control in place over third party compliance

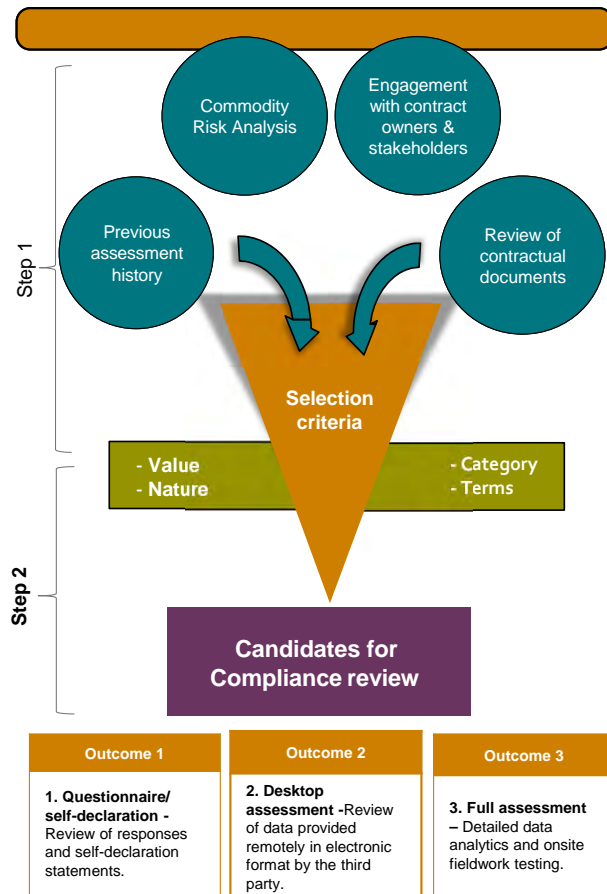
AUDITING THIRD PARTY CONTRACTS

Internal Alignment: Stakeholder Engagement



How to effectively manage pitfalls:





High risk relationship factors

- Long running relationship.
- Known issues/areas of contractual concern.
- Frequent change of account manager.
- Large volume of amendments.
- Strategic importance of third party.
- Contract terms not fully understood / monitored
- Lack of transparency, reliance on third party to report performance correctly.

	Value	Category	Nature	Terms	Proceed?	Comment	Recommendation
Third Party 1	●	●	●	●	✓	High value, known issues,	2025
Third Party 2	●	●	●	●	✓	High value, high risk industry	2025
Third Party 3	●	●	●	●	✗	High value but only just started	Future years
Third Party 4	●	●	●	●	✗	Med value, low risk industry	No further action
Third Party 5	●	●	●	●	✓	Med value, medium risk industry	2025

AUDITING THIRD PARTY CONTRACTS

Example: Contract Risk Assessment Factors

Risk Factor	Details	
Spend Size	<ul style="list-style-type: none"> • Third Party Spend During Assessment Period (4 year lookback) 	
Spend Trends	<ul style="list-style-type: none"> • Spend Direction • Volatility 	<ul style="list-style-type: none"> • Transaction Volumes • Red-Flags
Third Party Competition	<ul style="list-style-type: none"> • Sole Source / Single Source • M&A/Consolidations 	<ul style="list-style-type: none"> • Regional and/or Union Related Limitations
Existing Client Oversight and Controls	<ul style="list-style-type: none"> • Frequency, Style & Results for Quarterly Reviews • Variability in Performance (regionally, etc.) 	<ul style="list-style-type: none"> • Monitoring and analysis of performance reporting • Visibility prior to performance reporting
Third Party Relationship	<ul style="list-style-type: none"> • Diversity of spend/services/goods • Prior assessment coverage and results 	<ul style="list-style-type: none"> • Prior performance shortcomings • Strength of Relationship
Contract Terms	<ul style="list-style-type: none"> • Clarity/Ambiguity of Terms • Audit Clause Strength 	<ul style="list-style-type: none"> • Complexity • Frequency of Changes
Third Party Control Environment	<ul style="list-style-type: none"> • Controls • Self-Assessments / Certifications for Compliance 	<ul style="list-style-type: none"> • Manual versus automated processes and billings • Turnover

OBJECTIVE 3:

Approaches to Contract Recovery

CONTRACT RECOVERY OPTIONS

Dispute Resolution



Negotiation

(preferred)

- Go-forward cost savings
- Refund checks
- Future Terms
- Offset against current liabilities



Litigation

(last resort)

- Auditors can serve as expert witness/support if needed

Recap

CONTRACT RECOVERY OPTIONS

Recap

- 1) Identified key contract components that impact your bottom line
- 2) Identified ways to develop a systematic approach to auditing contracts
- 3) Identified approaches to financial recovery

THANK YOU
Questions?

Why Armanino

We understand your business. Our deep sector knowledge embraces both current trends and future challenges. We know what's coming over the hill, from threats and disruptions to opportunities and innovations. We know the issues and pressures you face—and we have the knowledge and experience to help you deal with them.

We deliver the results that matter.

Armanino professionals' understanding of what is happening in today's markets is matched by a proven ability to produce effective, timely and appropriate solutions fit for purpose.

We know how your business works.

Armanino teams immerse themselves in your business, your objectives and your priorities. That's why our people will feel more like colleagues than consultants.

We know how to exploit technology.

Armanino teams combine deep functional and industry knowledge with proven technology implementation skills. Our focus on practical business outcomes helps to maximize the return on your investment in technology.

We know how to get things done.

Armanino can put together a hand-picked team of specialists, who will work to meet your business needs. We can also draw on a wealth of tools, methods, assets and accelerators that enable us to help you achieve your strategic objectives.

We are ready to start Day 1.

Because our team has previous experience providing supplier assessment services, we are able to hit the ground running, ready to accelerate your objectives and support your annual assessment plan.

Armanino Operates in an Alternative Practice Structure:

“Armanino” is the brand name under which Armanino LLP, Armanino CPA LLP, and Armanino Advisory LLC, independently owned entities, provide professional services in an alternative practice structure in accordance with law, regulations, and professional standards. Armanino LLP and Armanino CPA LLP are licensed independent CPA firms that provide attest services, and Armanino Advisory LLC and its subsidiary entities provide tax, advisory, and business consulting services. Armanino Advisory LLC and its subsidiary entities are not licensed CPA firms.