# Advanced Internal Controls for Your AP Invoice Processing Function

Avoid an Internal Control Breakdown

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Strong internal controls are the backbone of any effective accounts payable (AP) operation. For without them, duplicate payments and fraud are apt to be much more prevalent. Moreover, when a process has strong controls woven throughout the invoice processing function, the odds are high that it will be efficient and cost-effective. In this paper, we take a look at common incidents of internal control breakdowns as well as some awful practices in use in more than a few accounts payable departments. Of course, we'll include recommendations to eliminate the problems discussed.

## Internal Controls Breakdowns

More than occasionally, even those organizations with good practices overlook certain aspects of their process resulting in an internal control breakdown. Some of these overlooked areas where controls breakdown include the following:

**1) CUTTING SYSTEM ACCESS WHEN AN EMPLOYEE IS PROMOTED.** When an employee is promoted, they will typically get access to a different part of the organization's accounting system as part of their new position. If the organization frequently promotes from within (something we highly recommend) and the old system access is not terminated when the employee starts the new position, the organization could have a real segregation of duties nightmare on its hands. If you suspect you have this issue, run a report showing what access each employee has. Based on this information, terminate all access that does not relate to their current position.

**2) NOT USING THE SAME STANDARDS WHEN PAYMENTS ARE MADE OUTSIDE AP.** With the move to ACH, about 20% of organizations are having these payments made outside AP. This in and of itself is not a problem. The problem occurs when the staff making these payments do not use the same rigid processes used in accounts payable to ensure duplicate payments don't occur. Typically, the problems occur when purchase orders and/or receiving documents are not closed upon payment or when the three-way match is not completed.

**3) NOT TAKING PROPER ACTION WHEN AN EMPLOYEE LEAVES THE ORGANIZATION REGARDING COMPANY CREDIT CARDS.** Many organizations forget to get the company credit card back from departing employees. Even getting the card back is not sufficient for if the employee is truly devious, they will simply write the card number, expiration date and three digit code down before turning over the card. To be completely protected, the organization should alert the card issuer to cancel the card. In fact, even if you don't get the card back, canceling the card will protect the organization from an unscrupulous former employee.

**4) NOT STOPPING RECURRING LEASE OR LOAN PAYMENTS WHEN THE AGREEMENT IS RENEGOTIATED.** Whether it's a lease on a piece of equipment that is terminated in conjunction with a new lease on a newer model or a loan paid down before the maturity date, notifying accounts payable to stop making that recurring payment is critical. Yet, too often this step is forgotten and the payment for the old transaction continues to the original maturity date. Periodic checking on recurring payments as well as an incorporation of the notification into the renegotiation process will cure this issue.

**5) FORGETTING TO DO THE SIMPLE TEST TO CHECK FOR EMPLOYEE FRAUD.**
The simple check involves comparing addresses of employees in the HR file with addresses of vendors in the master vendor file. Matches need to be investigated and many will be false positives or instances with legitimate reasons for the match. However, occasionally you will find an employee playing games masquerading as a fraudulent vendor. How frequently? One company reports finding two cases in six years. That's not a bad return for the small amount of time it takes to run the comparison.

## A Word about Appropriate Segregation of Duties

You can't talk about internal controls without spending at least a little time discussing appropriate segregation of duties. Simply put, when it comes to accounts payable, appropriate segregation of duties means that no one person can do (or have access to) more than one leg or piece of the procure-to-pay process. While this sounds simple enough in theory, in practice it is not always so easy to implement.

Typically problems arise for one of three reasons. They include:

**1) SIZE OF THE DEPARTMENT.** This is the most common reason for lack of appropriate segregation of duties. Smaller departments often don't have enough staff, especially if they back each other up. Great care needs to be given when assigning work in smaller departments to ensure appropriate segregation of duties. If the staff is too small to handle this issue properly, some tasks can be moved to other departments. Most frequently this includes moving master vendor file to purchasing or another accounting area or having the responsibility for getting a second wet signature on checks elsewhere—should the organization still take that step.

**2) NEED FOR BACKUP AND TRAINING.** In some cases where there is adequate staff, the accounts payable manager or director will have access to every task so they can pitch in if needed. Also, they claim they need this access for the training of new employees. The training can be delegated to a proficient supervisor and the manager should not be pitching in to handle processors work. That is not a good use of their skills.

3) MANAGERIAL PREFERENCE. Occasionally, a controller or CFO will insist on access to everything so he or she can check anything they need and more or less monitor the work of subordinates. While in theory this might be acceptable, the need for appropriate segregation of duties should supersede this issue. No one, no matter how high in the organization or how trusted, should have complete system access.

Before you completely dismiss this issue, don't forget Sarbanes-Oxley and Section 404. If you are a public company, strong internal controls are not just a nicety they are a requirement under the law. This includes appropriate segregation of duties. Of course, this should be a necessity for all organizations regardless of their corporate structure.

## Practices that Don't Work: Do This, Not That

More than a few organizations end up incorporating really poor practices into their payment function. Typically these evolve over time, without anyone really taking the time to focus on them. Emulating the popular Men's Health feature, Eat This, Not That, we've got a list of seven 'Do This, Not That' practices every organization should use. The 'Not That' features are among the worst practices any organization can employ. Let's take a look at alternatives to seven commonly used practices that should be avoided.

1) CENTRALIZE THE RECEIPT OF INVOICES. DON'T ALLOW THE VENDOR TO DECIDE WHERE TO SEND INVOICES. Too often, organizations are either reluctant to tell vendors where to send invoices or simply neglect to do so. Direct invoices to one centralized location. Today that means one postal address, one e-mail address and one fax number Of course, if invoice automation is used, that also achieves the same goal of a centralized receipt of invoices.

2) RETURN UNIDENTIFIED INVOICES TO THE SENDER. DON'T TRY AND DETERMINE WHO PLACED THE ORDER. When an invoice arrives without a purchase order number or the name of the person who placed the order, don't waste time trying to figure out who should approve the invoice. Simply send it back to the vendor with a polite note explaining your policy of requiring a PO number or name so "you can get the vendor paid as quickly as possible."

3) ESTABLISH AND MANDATE THE USE OF A RIGID CODING STANDARD. DON'T ALLOW EACH PROCESSOR TO ENTER DATA AS THEY WISH. By insisting everyone enter data in the same manner, you will greatly reduce the odds of an invoice being paid twice. This is a step every organization can and should take immediately, if they have not done so already.

4) REVIEW STATEMENTS FOR OPEN VENDOR CREDITS ON A REGULAR BASIS. DON'T IGNORE THE ISSUE. By reviewing statements on a regular basis to recoup open credits, you'll ensure your organization gets all its money and the vendor does not use the funds to settle disputed invoices or pay off accrued fees you had no intention of paying.

5) MAIL ALL CHECKS. DON'T RETURN THEM TO THE REQUISITIONER. Returning checks to the person who requested the payment is a sign of a poor internal control. It increases the chances of fraud, making it easier for the deceitful employee to steal a check intended for another party. It also facilitates occupational billing fraud.

**6) ADDRESS THE PERSONAL DEVICE ISSUE RATHER. DON'T ALLOW EMPLOYEES TO DO AS THEY SEE FIT.** In growing numbers employees are purchasing personal devices (smartphones and tablets) themselves and using them for company business. While their intent is good, these devices rarely have the same strong anti-virus software installed that is put on company computers. Each organization should establish a policy on this emerging issue. It won't go away.

**7) LEARN AS MUCH AS POSSIBLE ABOUT INVOICE AUTOMATION. DON'T HOPE THE ISSUE WILL GO AWAY.** Professionals who wish to thrive in the accounts payable function will need to learn as much as possible about invoice automation and how it can help their organizations.

## Concluding Thoughts

Have you noticed how many of the issues discussed could have been avoided if invoice automation was in use? Technology is making inroads into the accounts payable process at a speed never seen before. Moreover the applications are no longer just for big companies. Most are affordable by even the smallest organizations. This is no longer a big company phenomena; it is for everyone.

With invoice automation, human keying errors are eliminated. What's more, you'll need fewer associates to handle the basic processes, so they can be reassigned to work on dispute resolution and other value-add tasks.

Embrace the change and learn everything you can about the products offered by the marketplace, including Anybill. They are more than happy to arrange a no-obligation product demo as well as answer your questions.

## About the Author

Mary S. Schaeffer, AP Now's publisher and editorial director, is a nationally recognized accounts payable expert. She is the author of over 17 business books, including 101 Best Practices for Accounts Payable, as well as a monthly newsletter and a free weekly e-zine. Before turning to writing and consulting she worked in the corporate world as an Assistant Treasurer for the Equitable Life Assurance Society, a Financial Risk Manager for O&Y and a Corporate Cash Manager for Continental Grain. She speaks regularly at industry events, one-day seminars, conferences and online events. She has an MBA in Finance and a BS in Mathematics.



## About Anybill

Built on the premise that all payments are critical, Anybill was created in 2001 to transition any AP transaction to an automated solution. We combine our proprietary technology with unmatched customer service to deliver a complete Software-as-a-Service solution. Clients retain efficient workflows while gaining greater visibility and control, better cash flow management, streamlined approval processes, 24/7 accessibility, and increased auditor confidence. Anybill works with clients ranging from non-profit associations to some of the largest multinationals. We are headquartered in Washington, DC, and are SSAE 16 SOC compliant.

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