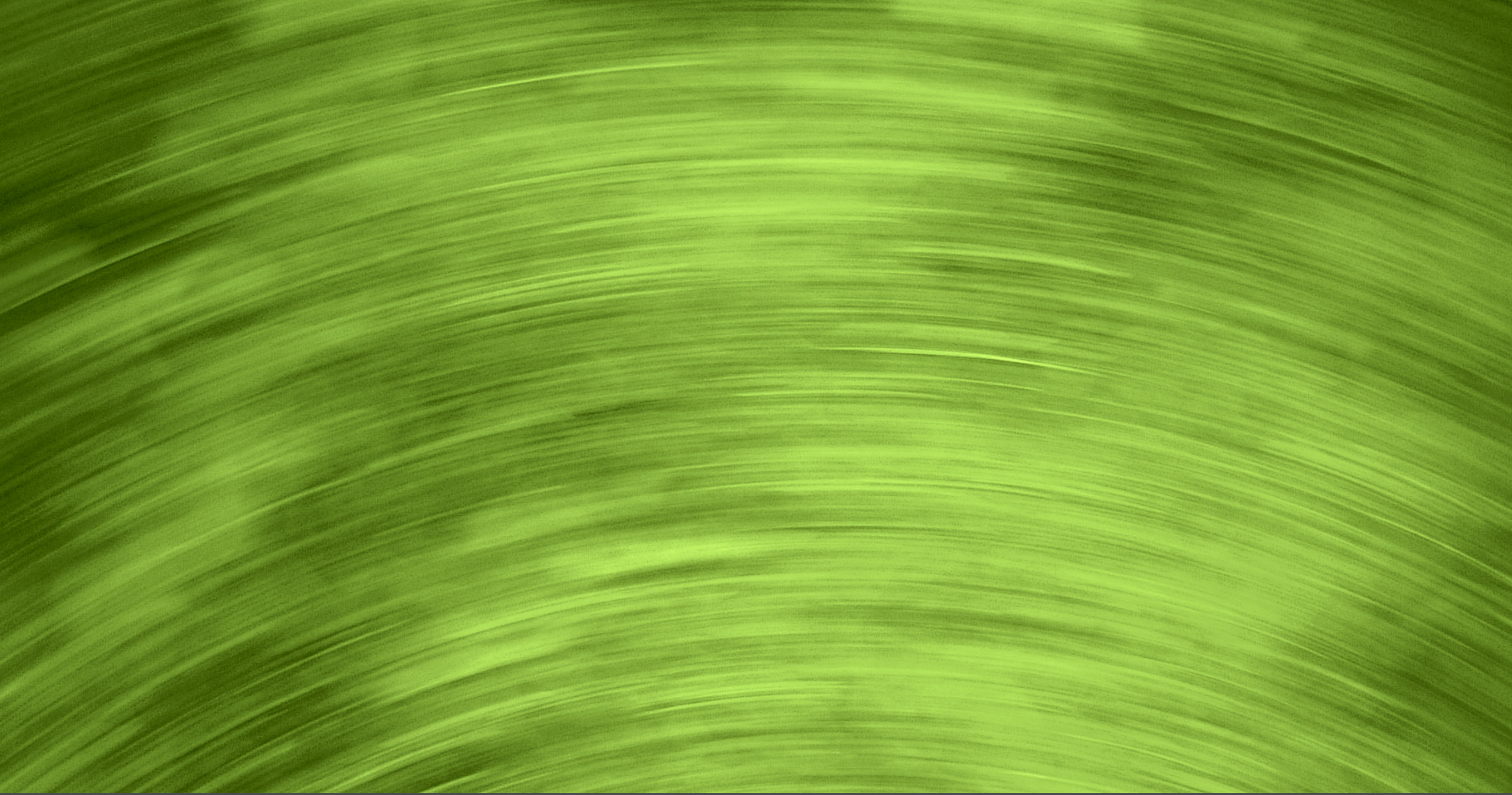

Unveiling the Unspoken Benefits of Accounts Payable within an Organization

The Institute of Financial Operations
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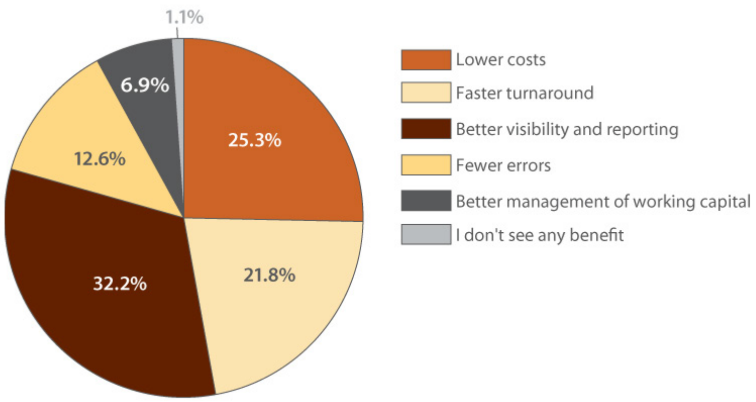
Abstract
The benefits of incorporating automation technology into the accounts payable process include more than efficient receipt of supplier invoices, improved visibility, enhanced audit processes, and lower costs. There is another level of benefits that the accounts payable process can add to the organization. In addition to discussing the major benefits of invoice automation, this white paper will focus on the best practices that can be incorporated into the people, processes, and additional technology outside of the invoice automation process, and will discuss how they add value to an organization.

Introduction
Accounts payable plays a critical role within an organization, as it is the last point of control before a payment is sent to a vendor. The function provides several benefits, by performing due diligence related to vendor setup and invoice processing, assuring that payments are processed based on terms, and providing a high level of customer service.

What do you believe is the biggest benefit to using automated data capture for invoice processing?

Respondents who have deployed automation in AP



Research conducted by The Institute of Financial Operations, such as the 2011 UK AP Evolution Study: Global Trends in Data Capture in Accounts Payable, shows an overwhelming number of respondents perceive benefits to automation in invoice processing. These results are aligned with similar research that has been conducted.

In addition to the efficiencies and effectiveness realized from an automated and streamlined process, accounts payable provides several intangible benefits within the organization. This white paper will review both the major benefits and the sometimes unnoticed benefits that can be provided by the accounts payable department.

Major Benefits
The benefits that result from the implementation of invoice automation within an organization can be substantial.

Improved visibility.
The topic of visibility usually surfaces when the discussion is about paper invoices. Improved visibility can mean many things when it comes to electronic invoicing. First, electronic invoicing facilitates the centralization of the accounts payable department. For instance, instead of invoices being sent to several different locations within a region, an electronic process will allow for suppliers and business partners to send the invoices to one central location. Therefore, suppliers can contact one specific location when inquiring on the status of an invoice.

Next, it allows for a business partner that has submitted an invoice to review the status of the invoice. For instance, is it in queue to be vouchered, is it in a dispute bucket, has it been processed for payment, or has it been paid? This eliminates the need for suppliers or internal business partners to submit invoices multiple times, and will reduce the number of inquiries made to the accounts payable department. In addition, it will minimize or eliminate the potential for duplicate payments.

The process can help uncover a gap in the approval process. It is not unusual for invoices to sit on someone's desk until the vendor calls for payment status, which produces zero visibility at the front end of the process. This behavior not only delays the process but also often leads to a "rush payment" request made by the individual who caused the problem. It could result in a late payment and sometimes the disconnection of a service or the "stop shipment" of a product.

From a historical perspective, if copies of invoices are required in the future, whether to complete an analysis or to support an audit, invoices processed electronically are a click away versus the need to get copies through a request to records retention.

In order to gain full visibility to the entire AP process, a company should tightly integrate with its ERP system, as the invoice is tracked from receipt until it is paid. The early visibility ensures that all invoices are captured in the system; helps identify audit or control issues with invoices; allows for indentification of root cause and corrective action; and provides the ability to produce an audit trail throughout the entire invoice cycle.

Proper accounting at month/year-end.
Accounts payable departments that process paper are never 100 percent positive that they have accounted for all of the invoices in the pipeline to be processed. Invoices could be on an approver's desk, stuffed in an AP rep's desk, manually routed for dispute resolution, or being held until the following month as a way to manage expenses.

Electronic invoicing eliminates these inefficiencies as it allows for all invoices to be stored in one repository, which will assist in the process of recording the correct accrual at the end of the month/year. Therefore, the accounts payable department can eliminate any thresholds related to calculation of the monthly accrual, as reporting is available to easily calculate the liability.

For instance, an AP department may not have the capacity to voucher all invoices prior to month-end. Therefore, a policy may exist that all invoices greater than $5,000 need to be entered, and a "top-level" accrual would be recorded for the unvouchered invoices. This process would allow for an unvouchered invoice report to be run; therefore, eliminating the manual calculation process, and assuring that all invoices received are accounted for within the process.

Improved productivity.
Productivity is improved as invoices are captured online on an immediate basis. Paper is eliminated from the process, visibility is improved, and invoices are handled only once instead of paper copies being received multiple times from the supplier or internal business partner This is imperative at peak times, such as month-end, as suppliers and internal business partners do not hesitate sending in an invoice multiple times to ensure it is processed. Electronic invoicing eliminates the duplicate submissions from the process and helps drive standardization within the team.

Improved productivity can be measured by metrics such as invoice volume, disputed invoices, time-to-enter, paid-on-time, discounts taken, and individual AP rep data entry volume.

Workload balance and bottleneck management.
Accounts payable has access to information for reporting and analysis to balance workloads and identify process bottlenecks. The process begins after invoices are scanned and routed to a queue for processing. The queues can be structured in many ways, such as alpha-numeric, PO versus non-PO, ERP system into which they need to be entered, whether they have incomplete information and can't be sent to a queue, or whether they need to be processed and paid on an immediate basis. This allows the AP management team to manage the workload throughout the month, and ensures that the committed volume is entered by month-end. In addition, metrics and reporting are available on an individual and team basis, which can be used to further drive efficiency and effectiveness throughout the organization.

Efficiencies from interface with ERP system.
Invoice automation drives simplification and enables standardization within the AP process.The efficiencies gained allow for an interface between the invoice automation tool and the ERP system (Oracle, SAP, Peoplesoft), which enables the team to focus on root cause and corrective action, rather than spending time and effort entering data.

Benefits include automated matching of PO-based invoices, online general ledger coding with cross-references built to confirm coding and approvals, and linking of invoice and other supporting documentation to ERP for real-time viewing.

Improved quality.
Poor quality or errors can lead to a degradation of reputation, impede departmental productivity, and result in additional expense and possibly lost revenue. With electronic invoicing, invoices can't be thrown away, nor can they get lost if they need to be routed to an internal business partner for approval or resolution. In addition, electronic invoicing allows for visibility to the status of an invoice, such as when an invoice can't be entered into a business system, needs to be routed for approval, or is waiting to be paid. Finally, the process improves the quality of productivity, reporting, and adherence to internal controls.

Reduced credit holds from suppliers.
Electronic invoicing provides a high level of probability that invoices will not get lost and keeps track of those that can't be processed. In addition, the invoice float is reduced by the amount of time that an invoice is in the mail. An electronic invoice can be processed in an expedited and timely manner, which drives a higher level of customer service. These variables, combined with visibility, decrease or eliminate the number of credit holds previously associated with lost invoices, as invoices are processed and paid in a timely manner.

Accurate reporting of backlog.
A common theme with electronic invoicing is the elimination of paper from the process. With electronic invoicing, an accounts payable department has complete visibility to invoices that have been submitted by suppliers and internal business partners. In addition, business rules related to duplicate invoicing ensure that the backlog represents the true volume versus a number that is inflated with invoices submitted more than once.

Starting point for best-in-class.
There are four phases involved with the implementation of electronic invoicing. Phase 1, which is the actual elimination of paper from the process, is the starting point of achieving the multitude of benefits reaped from the electronic invoicing process. Once an organization is successful at implementing Phase I, it can evaluate character recognition and begin the process of integrating with its ERP system. The ultimate goal

is to have an accounts payable staff that focuses its time on improving processes and managing controls versus keying the actual data into the ERP system.

Opportunity to globalize and centralize.
Organizations that make the decision to process invoices in one location can leverage electronic invoicing as invoices can be sent to one specific point to be processed. For example, an organization with locations in North America could have the invoices processed in a low-cost country in Europe.

The benefits of centralization include improved vendor relations; reduced costs; increased compliance with Sarbanes-Oxley, sales and use tax, unclaimed property, 1099 reporting; and reduction of other audit risks.

Minimized duplicate processing and payments.
Electronic invoicing allows for the incorporation of business rules into your process. Therefore, there is a significant reduction of duplicate invoices and payments, specifically those that occur within different business systems, as invoices are only required to be mailed, e-mailed, or faxed once.

Lower cost per invoice.
Accounts payable departments that have a high penetration of electronic invoicing see a significant reduction in cost per invoice. In one recent example, an organization with a shared service center in Europe had a cost per invoice of $7.10, whereas the cost per invoice in North America was $0.78. The major difference between the two regions was the penetration of electronic invoicing. In Europe, the electronic invoicing was 18 percent, while in North America it was 87 percent.

The reduction of costs is related to people, processes, and archiving costs.

- People: Costs decrease as efficiencies increase with less time and effort devoted to handling invoices, preparing checks, and reviewing disputed items.
- Processes: If the invoice automation process is integrated with your ERP system, savings result as the manual input process is minimized or eliminated.
- Archiving: As invoice and payment data is stored electronically, data searching, analysis, and dispute management is more economical.

Improvement of audit and compliance controls.
In a paper-based environment, it is common to dedicate a fair amount of time to manually retrieving copies of requested invoices from a storage facility. In addition, there is a risk that an invoice is missing or was not returned to the correct location. With invoice automation, an invoice can be retrieved and reviewed on a real-time basis, so audit requests can be fulfilled in minutes, rather than hours or days. The process helps facilitate other requests, such as confirmation of the month-end control process. The availability of the invoice and the required supporting documentation helps the auditors connect the dots. such as when a company requires that a signed contract, purchase order, and invoice must match before a payment is released.

From a compliance perspective, controls can be developed related to manual invoice processing. Invoice automation, however, allows for the development and implementation of business rules. For example, an organization may communicate that all invoices need to be submitted with a valid purchase order. Or, invoices related to a specific vendor, vendor type, or expense type may get routed to a queue for additional audit activities.

In the end, improved audit capabilities identify payments made in error, duplicate payments, and the root cause of the payment made in error, and increase the organization’s level of confidence in accounts payable.

Increased ability to detect and prevent fraud.
The process to set up and maintain the vendor database resides within the accounts payable team. It is imperative that a due diligence process is followed to ensure that only legitimate vendors are in the system.

Other “red flags” can enable the accounts payable team to identify potentially fraudulent or unethical behavior within and outside the organization.

Examples include:

- **Rounded amount invoices.** Often, invoices that are associated with fraud have rounded amounts. Therefore, the accounts payable team can audit invoices with a rounded amount to determine whether they are legitimate. For instance, it would be unusual for an invoice from a vendor of raw material or components to be for a rounded amount, but not an invoice from an individual providing consulting services.
- **Invoices just below an approval amount.** An organization may have a process where a supervisor can approve invoices up to $1,000 and a manager can approve invoices up to $5,000. If a vendor continues to send in invoices for $999.99, the accounts payable team would flag that invoice as likely to have been intentionally generated for that amount so only the supervisor would need to approve it.

- **Use of positive pay for paper checks.** Paper checks are a target for fraud. Therefore, the accounts payable team provides a positive pay file to the bank to ensure there is reconciliation between the checks that are mailed and customer deposits. For example, an accounts payable department could send check No. 123 to the ABC Company for $1,000. If a fraudster were to intercept the check and change the payee to The Black Company, that exception would be identified in the positive pay process, and the check would be rejected. Without positive pay, the fraudster would have $1,000 in his or her possession. Relying on paper checks exposes the business to fraud, which is lessened when the accounts payable department maximizes electronic payments within the vendor base.
- **Requests for checks to be sent to a different address.** Another red flag associated with paper checks is when a vendor requests that a check be sent to a different address than the “remit to” on the invoice or wants the check hand-delivered. The check could end up going to a personal address, and the funds could be embezzled.

Improved customer service – both internal and external.

An automated accounts payable process is the key to providing a high level of customer service. In most cases, the benefits are identical for internal and external customers. An automated process:

- Eliminates lost invoices and requests to resend invoices multiple times.
- Provides visibility into the status of the invoice (received, waiting for approval, disputed, waiting to be paid, or paid).
- Allows for an invoice and supporting documentation to be sent to either an internal customer or the vendor through the workflow tool, which allows for real-time tracking of resolution status.
- Allows the AP staff to provide quick, correct, and consistent answers.
- Provides real-time access to invoices for analytical purposes, budget reviews, or audits.
- Helps resolve discrepancies quickly with real-time access to invoices and related documentation such as a purchase order or contract.

Overall, visibility coupled with quick resolution of problems or exceptions can increase the probability of sending a payment to a supplier in a timely manner. When an issue exists with a paper invoice, the lead time for resolution tends to be stretched, as the paper invoice is passed around between in the organization and could be lost or misplaced.

Other Benefits

Invoice automation is not the only process that can benefit an organization from an accounts payable perspective. Many initiatives that involve the people, processes, and technology can help drive effectiveness and efficiencies within the organization. These initiatives include:

Employing individuals who are analytical versus transactional thinkers.

In the past, it was important to have team members who could key 100 words per minute, and ensure they focused purely on data entry. However, with automated solutions and “green” initiatives in place, it is important to have people who can think “big picture” or “outside the box.” Therefore, it is imperative to provide your accounts payable team with formal training on policies, procedures, ERP structure, and customer service. This will provide the team knowledge of red flags associated with fraud, negotiating skills, and an understanding of the economics of payables. The result is an increase in efficiency and effectiveness of the team.

Focusing on root cause and corrective action.

Individuals who are analytical thinkers have a better understanding of the root cause, true cause, and corrective action when a vendor is not paid in a timely manner. These individuals help address disputes, overpayments, duplicate payments, and payments to the wrong vendors.

In addition to being analytical thinkers, employees must be trained to ask in every situation, “How can this process be performed more efficiently?” Instead of saying “This is the way we have always done it,” it is imperative to ask, “Is this the most efficient way to handle this today?”

Streamlining AP processes to drive efficiency and effectiveness within an organization have become a priority for management in any size company, as managing cash flow, liquidity, and sustainability are critical to survival.

Working capital management and timing of payment runs.

Today’s economy is prompting organizations, especially smaller companies, to focus on reducing costs and increasing efficiencies with the expenses related to people, processes, and technology. The accounts payable function, specifically the strategy that drives the generation of payments, is a critical component in managing cash within the organization. In any size business, it is the major component that can be used to manage cash flow, as the company has control over the amount of expense and the timing of payments. This enables the organization to optimize working capital.
The equation for working capital is accounts receivable plus inventory minus accounts payable. In theory, accounts payable should be the easiest component of the working capital

equation, as the organization has a high level of control over paying invoices. However, it is imperative that the strategy does not drive the wrong results with the vendor base, such as a price increase, a decrease in service level, or even legal action.

There are several examples of payment strategies that can benefit working capital, including the flexing of payment terms and timing of payment runs. It is imperative to obtain the best possible payment terms with the vendor when negotiating a new contract. However, accounts receivable knows that payments are not received on the date due. A payment strategy can be developed to generate a payment based on the timing of the payment run, and take advantage of the additional float.

For example, the agreed-upon payment terms with a vendor may be net 30. If is payment is due on a Monday, and payments are generated every Friday, a payment might not go out until five days after it is due. With three days of float associated with mail and vendor processing, in the end, the payment was really made on day 38.

Another example is to negotiate payment terms based upon the receipt of the goods or the invoice, which could add another week or more to your terms. In this situation, you could generate an EFT payment instead of mailing a check, and the vendor would not be waiting three more days for the payment.

There may be specific times during the month where cash is tight for an organization. For example, utilities, tax payments, health and retirement, and payroll expenses all need to be paid throughout the month – and receivables usually arrive at the end of the month. If utilities and payroll are always due during the first week of the month, a strategy may be established to pay only certain invoices during that first week, to avoid requesting a short-term loan from the bank. An organization's revenue and expense budget should map out the timing to ensure an optimal working capital policy. When payment terms and policy are spelled out, payments can be made based on this criteria.

Another solution is called supply chain financing. This is available to companies of all sizes and is a reverse factoring process that results in the vendor and the customer managing working capital in a flexible manner. The vendor submits the invoice to the customer, who processes the invoice and then submits it to the financial institution that is managing the process. At that point, the vendor can receive payment in advance of the due date, in exchange for a discount to receive the payment early. The discount is based on a sliding scale, so the earlier the payment, the higher the discount. The customer doesn't remit payment to the financial institution until the maturity date.

Managing discounts (cash flow).

The working capital strategy within the organization will determine whether taking an early payment discount makes sense from a return-on-investment perspective. The formula used to analyze the discount strategy is based on the effective annual rate of return.

Effective Annual Rate of Return Formula

$$\frac{\textbf{Discount}}{\textbf{100\% - Discount}} \times \frac{\textbf{Total Period}}{\textbf{Days Saved}}$$

Scenario: A vendor will give a 1.5 percent discount if an invoice is paid within 10 days. As the manager of accounts payable, you need to determine whether accepting the discount will benefit the organization. Below is the calculation for the effective annual rate of return.

Effective Annual Rate of Return Formula

1.5% 10, net 30

$$\frac{1.5\%}{100\% - 1.5\%} \times \frac{365}{(30 - 10)}$$

Rate of Return **27.8%**

In this example, the rate of return is 27.8 percent. The decision whether or not the discount should be taken depends on the overall working capital strategy. As previously discussed, there may be certain times in the month where cash is tight and it does not make sense to pay vendors early. The important point is that the working capital strategies are aligned with overall cash flow objectives within the organization.

Preventing late payments.

Late payments can be the result of several situations. First, the vendor may send the invoice directly to the requisitioner, which can result in a delay of processing. The accounts payable team can provide a report that identifies the invoice date, date the invoice was received in accounts payable, and the day it was processed. For example, the Internet service continues to be disconnected within the company, as the invoice is not paid by the due date of the 15th of the month. After further review of the situation, it is determined that the invoice is sent to the facilities group, which only approves invoices on the 20th of each month. Clearly, the process will need to be changed in order for the payment to be processed on time.

Another example is related to the working capital strategy, where it has been determined that vendors will be paid on priority or monthly. Based on our prior example, there are vendors that will accept the strategy, and some will be lenient. Therefore, the accounts payable department will ensure that payment strategies are based on the acceptance level of the vendor.

Managing debit balances and the escheatment process.
Debit balances result from an overpayment to a vendor, or when a credit memo is issued after payment is made. The accounts payable department has the responsibility to ensure that the overpayment or money due is collected from the vendor. Otherwise, the company could be at risk of losing the funds, as the vendor could refuse to return the funds or end up bankrupt. It is imperative that the debit balance report be reviewed in a timely manner.

Escheatment or unclaimed property results when checks are not being deposited or cashed by vendors. Similar to the debit balance process, it is imperative that uncleared checks are resolved in an expedited manner. Accounts payable can add value to the process by researching outstanding checks within 60 days of issuance. If escheatment does occur, the accounts payable department will provide the expertise related to state regulations for unclaimed property such as dormancy period and due diligence requirements.

Performing invoice processing due diligence (i.e., reviewing the correct supporting documentation required to process an invoice).
Regardless of whether a company is private or public, stringent controls should be in place to govern invoice processing, which helps mitigate the risk of fraud within an organization. For publicly held companies, transactions need to be aligned with accounting principles and the Foreign Corrupt Practices Act (FCPA). The correct supporting documentation must be provided when transactions are processed.

For example, the FCPA prohibits using bribery to obtain business from government agencies. Payments made to a charity or government agency require documentation to demonstrate an acceptable transaction was processed.

Another example would be including the contract, purchase order, and invoice associated with a business consultant, to ensure that the payment is aligned with the original agreement.

Improving processes between different departments to enhance efficiency.
One reason an accounts payable department needs to have a team of analytical versus transactional thinkers is to address issues from a “big picture” mindset. Meeting the overall goal of processing invoices in the most efficient and timely manner possible requires at least a general idea of how the other departments within the organization function. For instance, disputes with suppliers are typically the result of a problem with the purchasing-sales-receiving process. When disputes are identified, an understanding of the specific person or department involved helps prevent recurrence of the situation.

A good example would be when a vendor submits an invoice for raw materials without an accompanying purchase order. It appears that the requisitioner and vendor need additional training to ensure that all invoices are submitted in the correct manner in the future. The accounts payable team that identified this issue can help facilitate the training.

Establishing processes in addition to invoice automation that will allow for a paperless department and streamlined process.
In addition to the invoice automation and workflow process, other documents related to the accounts payable process can be electronically stored, with the same benefits as those of the invoice automation process. These documents include:

- Supporting documentation such as a contract, agreement, special approval, or other correspondence related to the invoice.
- Out-of-cycle payment request related to an early payment, in order to enforce payment terms identified in the vendor master.
- Positive pay files for those companies that do not have an ERP system that already stores this information.
- Travel and entertainment expense statements, reports, and receipts.
- Procurement card receipts and statements.

In addition, the process can be implemented for similar initiatives within accounts receivable, general accounting, fixed assets accounting, payroll, and purchasing.

Establishing metrics and conducting benchmark studies.
The accounts payable department can be benchmarked against those of other companies, for an “apples to apples” comparison.

Examples of common metrics and benchmark statistics include:

- Backlog
- Customer service level
- Cost per invoice
- Percentage of discounts taken
- Percentage of electronic invoices
- Cycle time to process an invoice
- Number of late payments
- Invoices processed per FTE
- Number of disputes or exceptions
- Number of electronic payments

Focusing on the key drivers of these metrics can enable an accounts payable department to become and stay a quartile-one performer. For example, the cost per invoice for an accounts payable department in North America could be $1.10, while the cost in Latin America could be $5.69. In this example, the main driver of the cost per invoice is the fact that the accounts payable group in North America receives 89 percent of invoices in an electronic format, whereas the invoices received in Latin America are manual.

Conclusion

In the past, there was a perception that accounts payable was a non-value-added back-office operation. Today, as accounts payable is recognized for its importance in managing cash, there are many benefits related to automation and other streamlined processes that can be implemented. Remember, accounts payable is the last function to "touch" a payment before it is sent to a vendor. It is critical to have the right people, processes, and technology in place to raise the team to the next level.

About the Author

Craig Simpkins, CAPP, has held positions in shared services for several years and has extensive experience in accounting and finance management. Currently he is the Director of Shared Services for Johnson Controls. Simpkins holds a bachelor of science degree in accounting and finance, a master of business administration in entrepreneurship, and a master of science in accounting.

He is the chairperson for The Institute's Ask the Expert team and has presented webinars in AP technology for The Institute. In addition to a white paper series on AP automation technology, he has developed and presented courses on CAPA and CAPP certification and best practices. He has presented several times on the topic of lean accounting and leveraging technology within a shared services environment, and has several years of experience with ERP systems and technology implementations, including scanning and workflow solutions.

About Anybill

Since 2001, Anybill has automated accounts payable for small- to medium-enterprises (SME) as well as some of the world's largest corporations and institutions. Because accounts payable—in all its iterations, including tax payments—is all we do, we're able to provide innovative and effective software that's wed to superior customer service. We are headquartered in Washington, D.C., are SAS 70 (Type II) compliant, and maintain strategic relationships with regional and national CPA firms such as RAFFA, BDO Seidman, KPMG and Ernst & Young.

About The Institute of Financial Operations

The Institute of Financial Operations is the umbrella association comprising four membership affiliates for finance professionals: International Accounts Payable Professionals (IAPP), International Accounts Receivable Professionals (IARP), the National Association of Purchasing & Payables (NAPP), and The Association for Work Process Improvement (TAWPI).

Based in Orlando, Fla., with offices in Boston and London, The Institute serves as a global voice, chief advocate, recognized authority, acknowledged leader, and principal educator for people in financial operations, with a particular focus on accounts payable, accounts receivable, procure-to-pay, automation, document management, and data capture. Combined, the affiliates have more than 6,000 members.

Under The Institute, the affiliates share one board of directors, one staff, and a single portfolio of member benefits available to all, including *Financial Operations Matters* magazine and a new website launched in late 2011. Each affiliate maintains its own customized brand, events, career resources, volunteer opportunities, online tools and other leading-edge resources, and educational offerings including e-learning and certification.