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50+ ways to improve your accounts payable function

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1. Introduction

The accounts payable team is I believe one of the most important teams in the accounting function and in the company. Is your accounts payable team one of the many who are sucked in by processes which have more in common with Charles Dickens era than the 21st century? Are you still writing more cheques than electronic payments? Many organisations have poor accounts payable routines which culminate in backlogs in processing, late monthly reporting.

This white paper is based around the wisdom and better practices of over 1,000 accounts payable teams principally based in Australia and New Zealand. Many of whom have participated in the ***waymark solutions*** better practice study of finance functions, or have shared their better practices in the many workshops I have run in the last 10 years. We owe a gratitude to these accounts payable teams for showing us the way forward. In this paper 'participant' refers to these participants.

I have included some useful checklists, see Appendix 1 for a checklist of the 50+ ways to improve your accounts payable systems & procedures, which has been prepared to help you through the implementation process.

An accounts payable team is the centre of an accounting function for without its smooth operation:

- monthly accounts cannot be prepared promptly;
- budget holders have no faith in their reports;
- suppliers are forever on the phone querying payments;
- the management accountants are severely handicapped.

2. The impact of better practices on the accounts payable workload

The impact of the better practices listed in this white paper and accompanying workshop is to move accounts payable work away from the low value processing activities into the more value added areas, as shown in Exhibit 2.1. This move, at the same time, will increase AP team job satisfaction and appreciation from budget holders.

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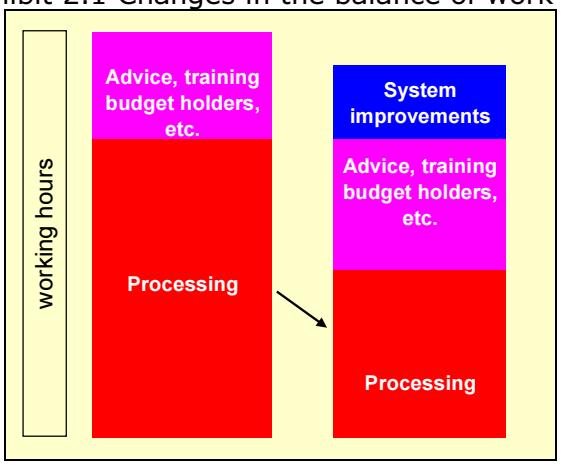
Exhibit 2.1 Changes in the balance of work



What is your response to these questions?

Is your accounts payable cut-off after the last working day of the month?

Are your accruals finalised after the last working day?

Do you have a peak workload at month-end?

Are some major monthly invoices arriving without a matching order?

Are cheque payments greater than 10% of total payments?

Do budget holders receive invoices directly?

Do you have more than one approval round for ordering and payment?

If you answer no to all of these you are one of the small minority who have got to grips with efficient and effective accounts payable operations. Your story should be told!!

3. Move to a paperless accounts payable operation

Many accounts payable processing procedures are more akin to the Charles Dickens era than the 21st century. Why do we go from an electronic transaction in the suppliers accounting system to a Charles Dickens paper based invoice. Surely we should be able to change this easily with our major suppliers.

Many American multinationals have achieved this already. It requires an investment, skilled A/P staff and retraining of the budget holders. The rewards are immense. To appreciate the benefits I suggest the A/P team regularly visit www.theaccountspayablenetwork.com website of The Accounts Payable Network.

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3.1 Review of software solutions

In Exhibit 3.3 I have outlined some solutions offered by application providers. Your best solution is to access the G/L networks offered by your accounting software provider or through Linked-in.

All you need to ask is:

- What systems are you using?
- How do you rate them out of one to five (five being a ground changer)?

Investigate all those applications that work with your accounting software scoring four or more

Exhibit 3.3: Some of the accounts payable providers and their applications

Supplier	Website	Background information found on their website	Free Trial / Demo
Cvision	http://www.cvisiontech.com/solutions/general/automated-invoice-processing.html?lang=eng	CVISION's Trapeze offers an advanced, automated solution for invoice processing. Capable of recognizing and extracting relevant information within each invoice, Trapeze can process all of your invoices quickly and accurately. After extracting information from incoming invoices, Trapeze can automatically reconcile the invoice information with the corresponding data in your business or accounts payable system. With Trapeze, you get faster invoice processing, better organization, and higher accuracy with the removal of human error. Don't waste resources on a task that can be performed better automatically. Let Trapeze transform your accounts payable system.	Free evaluation
Kofax	http://www.kofax.com/	Kofax MarkView® for AP (MarkView) automates the AP operations of hundreds of major organizations. The solution provides industry-leading information capture and automates invoice processing and data entry. It includes best practice workflows for discrepancy processing, resolution and accounting details as well as real-time ERP integration for SAP and Oracle E-Business Suite, a self-service supplier portal and an AP process optimization dashboard.	Webinar http://go.kofax.com/LP=3430?ls=direct whitepapers etc
ReadSoft	www.readsoft.com/	Accounts Payable (AP) automation with ReadSoft enables better control of received and invoiced goods, automatic purchase order matching, optional automatic posting of invoices, enhanced security,	Free 2013 AP Automation Study

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an electronic consolidated invoice. For more information search the web for "purchase card"+"name of your bank"

> *"My financial controller lobbied hard for a purchase card for all staff with all expenditure under $2,000 being processed via the card. The staff entered coding for purchases that were not already recoded by the supplier, and the approval process was on-line. Thousands of transactions were replaced by one electronic feed and one direct debit"*
>
> Quote from a CFO with blue chip international experience

On cut-off day all card holder's are given 24 hours or so to ensure all their expenditure is coded. All the purchase card holder has to do is access via the web, the bank's purchase card system (which off course can be done from an airport lounge), enter their security details to get access to their statement. If they have purchased from a designated supplier all will be coded, thus underpinning national contracts. It will only be the one–off purchases that need coding. The card system can be preset with the most frequently used purchase card G/L codes to aid efficiency.

AP staff look at the status of statements, send warning emails off, "please code your expenditure by 5pm tomorrow" and where necessary code all un-coded expenditure. Shame and name lists and the odd phone call from the CEO "what do you not understand about the importance of this system?" will ensure lapse behaviour is seen as career limiting!

AP can simply upload all the expenditure straight into the G/L and all the purchase cards are paid by one, yes one direct debit payment!! Now can you understand why most organisations in America use this system!!

The better practices with purchase cards include:

- A minimum amount is set before Accounts payable will accrue expenditure, as a minimum I would suggest $2,000. You need to look at the profile of your expenditure. You want at least 50% of the volume to be caught by the purchase card system.
- All employees who make regular purchases are given a purchase card
- Employees who make only one-off payments do so through their own credit card and claim back or use their manager's purchase card
- Corporate credit cards are recalled as they represent a duplication
- You never take them away from staff who are not coding their expenditure, you simply set the hounds on them!
- Pick the card holder that offers the easiest system, that links well with you G/L, permits supplier to code, and has a cash expense claim add-on
- Have a good intranet based manual

These systems have been working well in many companies. All you need to do is contact your bank, they will have many better practice examples. See Appendices 4 and 5 for purchase card guidelines and rules

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Exhibit 3.6 Purchase Card

Visit the following sites for free access to a good purchase card manual.

- www.ndsu.edu/purchasing/procurement_card/applyforapcard/
- vendornet.state.wi.us/vendornet/purchcrd/manual6.pdf

3.6 Working with technology with your main suppliers

Here are some of the ways to use technology with your main suppliers:

- Invest in liaison time with all major suppliers to organise electronic invoicing with the inclusion of your appropriate general ledger account codes – this requires liaison between the two IT teams, yours and the suppliers! See Appendix 4 for a case study and Appendix 5 for guideline.
- Load remittances electronically onto your website in a secure area so that suppliers with their password can download them. This removes the need to post remittances to suppliers. One participant said this was set up very easily by the IT team.
- Eliminate all cheque payments, framing the last cheque on the CEOs wall.
- Allow your key suppliers online read only access, through password access, to their account in the AP so they can reconcile their ledger.
- Introduce consignment stock where the supplier is responsible for constant replenishment e.g. core stock items (they need on-line access to relevant stock records), stationery etc.
- Change invoicing cycles on all monthly accounts such as utilities, credit cards etc. to a 26th to 25th sequence e.g. invoice cycle including transactions from 26th May to 25th June and being received by the 28th of the month. The accruals can then be a standard four or five business days depending on the remaining working days of the month.
- Ask large-volume, small-dollar suppliers to accept your purchase card (where available) or invoice monthly (note the new cycle).
- Ask utility suppliers who provide services to different branches to provide a consolidated invoice covering all branches e.g. have one telecommunications account for the organisation.

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electronic invoice. The invoice contains all details such as GST number, unique invoice number using say the first three letters of your company, two letters of theirs and four numbers e.g. dsbbd1234.

The benefits of this process include:

- reduced data entry costs
- elimination of duplicate and lost invoice condition
- reduction in processing steps
- reduction in queries arising from invoice and delivery mismatches; and
- minimisation of clerical error

8. Improving relationships with budget holders

There are many ways that relationships with budget holders can be improved. Some of the major ones include the following:

- Establish account management within the accounts payable team e.g. Sarah looks after budget holders A, B and C, Ted looks after budget holders D, E and F.
- Implement procedures to train professionals in other departments as to accounts payables processes and requirements.
- Hold training classes to ensure employees know how to use current processes and procedures.
- Send a "welcome letter" to new employees, see Appendix 3 for a template, to train them from the beginning and eliminate problems and bad habits before they have a chance to start.
- Develop a site-wide presentation of about 30 minutes outlining how the accounts payable function operates. Cover invoice approvals, completion of expense reports, etc. Require all managers and staff to attend.
- Make departments aware of all their errors. Set up a system to input vouchers as they are coded and send incorrect data to a report called "error suspense." Distribute copies of this report to the appropriate departments so they may fix their errors.
- Set a strict schedule for receiving invoices for payment. Distribute the schedule to all affected parties within the company and stick to it firmly.

8.1 Send a welcome letter to all new budget holders

Imagine the goodwill created when a new employee receives a welcome letter from the AP section, see Appendix 3 for a template, giving a contact name to organise a brief 20 minute training session for them.

Why wait till new employees are educated by the uneducated (budget holders who do not know or do not comply with the AP procedures!)? Get in there first. Prepare a brief training presentation on a lap top which can be taken around and

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presented on the new budget holder's desk. I have presented successfully to a small group by just using a PowerPoint display on my lap top.

The brief training presentation should include:

- the procedures
- the forms
- problems we have and why they create a lot of wasted time
- how BHs and the AP team can work most effectively together
- the presence of "shame and name" lists which you point out **"but this of course will not affect you!"**

This presentation is best delivered in a casual format, on a lap top supplied by the IT function, sitting on the new budget holder's desk. You will find the lap top screen is big enough for up to 4 to 5 people.

8.2 Introduce "shame and name" lists

If you want to change human behaviour you need to work on it for duration of 12 weeks, and during this time the penny will drop. I know this as I attended a behaviour change course sometime a go and have benefited greatly from it. If you create a number of shame and name lists and publish these on the intranet and in a hard copy for the SMT you will, over 12 weeks, create change. I would recommend preparing a laminated card with all the league tables, cut to fit the inside pocket of a SMT members' jackets. All the SMT need to do is discuss the matter with the budget holders when they bump into them or, when they have time, make a few careering limiting phone calls to these non compliant staff!!

The suggested lists are

- budget holders with the most purchase invoices without a corresponding order, see Exhibit 8.1
- employees with late expense claims
- budget holders with purchase invoices awaiting approval which are already outside the set "approval turnaround time"
- budget holders who have missed deadlines

Remember, you will never want to invite all the budget holders to your Sunday afternoon barbeque so do worry about being unpopular with the non compliant budget holder. You need to make one thing clear. Not complying with the accounting system requirements is going to be career limiting. In other words there are three options open to these non conforming BHs, either you leave the organisation, they leave the organisation, or they change!!

Exhibit 8.1: Shame and name

Manager	Number of purchase invoices without an order
Kim Brush	7
Pat Carruthers	5
Robin Smith	3

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requirement. Simply return to supplier and ask them to attach the purchase order (they will not want to repeat this activity more than once!).

- Develop an on-line supplier contact database. Anyone dealing with a particular supplier should be able to access this program. Each person with such dealings with a supplier keeps the file updated as to the current status of their transactions for all to see.

One finance sector participant has made significant benefits by developing a "partnership relationship" with suppliers. They have achieved lower costs and reduced processing costs. For instance they were making 9,000 payments in one area of their business a year. Now a preferred supplier handles everything and simply passes the details over electronically with their consolidated invoice.

One government participant has reviewed the numbers of suppliers and made big endeavours to rationalise these. For example, with 15 locations they had 15 Telecom invoices coming in at 15 different times of the month. Now they have one invoice, which arrives in time for their AP close off (on 1st working day). The regional offices now review their telephone expenses via their monthly reports.

One finance sector participant has made significant benefits by developing a "partnership relationship" with suppliers. They estimate that they are saving about $2m per year. They have achieved lower quoted prices and at the same time reduced in-house processing costs.

10. Accounts payable re-engineering improvements

This can be a complex and expensive task or a relatively easy one, the choice is yours. Many organisations start off by bringing in external consultants to process map the existing procedures. This is a futile exercise for the following reasons:

- Why spend a lot of money documenting a process you are about to radically alter?
- In the end only the consultants will understand the resulting data-flow diagrams.

The answer is to "Post-it" re-engineer the process in a workshop and all it requires is:

- There being one procedure per post-it, written in felt tip in big letters as it must be seen from 15 feet, and with the day the task is finished, see Exhibit 10.1. The standard convention is -1= last working day,+1 = first working day etc. as shown in Exhibit 10.2.

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▪

Exhibit 10.1 of a completed "post-it" sticker

Close-off +2
Accounts
Payable

- In a workshop environment the AP better practices are explained to the AP team e.g. the source being this paper plus research.
- There is a "post-it" for each spreadsheet used in the process.
- The "post its" are placed in time order under column headings day-2, day-1, day+1, day+2 etc. using a white board (the "post-its" do not stick well to walls!!).

Keep the work down as you will need to reuse them when the rest of the finance team catches on. See section 13.

Exhibit 10.2 Time key

Day-2	Day-1	Day +1	Day+2
2nd to last working day	Last working day	First working day	2nd working day of new month

- A cinema voucher is given for each process that can be removed as not necessary (they were done because they were done last year) - each one removed is like finding gold as it means less work, fewer steps.
- Reorganise the key processes and bottlenecks based on better practice e.g. accounts payable close-off occurring on noon last working day and now reschedule tasks that can be done earlier. You will find it hard to justify any task needing to be done after day 3!

10.1 Make site visits to successful AP sites

Better practice studies hold a wealth of contacts, and information which if utilised can galvanise change. The simplest way to make change is to have representatives of the AP team visit a company who is already there. Let the team taste, smell, see the success. They will want it for themselves.

10.2 Join "The Accounts Payable Network"

Enrol today in the accounts payable network, www.Theaccounts payableNetwork.com. It is an excellent website with webcasts and papers covering the latest developments.

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16. Appendix 1 Checklist of the 50+ ways to improve AP

Checklist of implementation steps	Tick if covered
Accounts payable systems improvements	
• Purchase an electronic ordering system (procurement system) which automatically links with the accounts payable system so that orders are completed electronically and invoices are matched electronically	
• Introduce scanning so that invoices can be sent electronically by email for approval. You need this even if you have invested in a procurement system as invoices without orders, or invoices which are different to their corresponding order, will need originator approval.	
• Load remittances electronically onto your website in a secure area so that suppliers with their password can download them. This removes the need to post remittances to suppliers. One participant said this was set up very easily by the IT team.	
• Acquire an integrated web based expense claim system so staff can complete their expense where ever they are in the world.	
• Get your IT team to meet with your major supplier's IT team so that invoices can be received electronically already with your GL codes!!	
• Acquire a web based purchase card and ensure wide spread use (see later section).	
• Allow your key suppliers online read only access, through password access, to their account in the AP so they can reconcile their ledger.	
• Update system to allow a screen enquiry to check payment history with the most recent payment showing at the top of the display.	
• Put receiving documentation on-line, eliminating the need to forward them to accounts payable.	
Administration improvements for all AP teams	
• Set up account management within your AP team type of supplier, rather than letter of the alphabet e.g. instead of Pat doing A-H suppliers, Pat works on all builders' accounts	
• Limit any post payment review to DCs or cheques over a large dollar amount, which will vary from company to company.	
• Route invoices directly to accounts payable by setting up a new postal address e.g. a new PO Box number and informing all suppliers of this fact.	
• Implement a direct-pay process that allows departments to purchase low value items without a purchase order e.g. costing less than $500. These are best paid for through a purchase card.	

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• Write a procedures manual and load it on the Intranet, covering ordering, approving, delegated authorities, expense claims, frequently asked questions etc.	
• Eliminate matching invoices for **office supplies** to the purchase order and receiving document. Also, have the supplier invoice on a summary invoice and make departments responsible for reviewing the expenses as they hit their cost centre.	
• Develop a quick form for credits, charge backs, so that staff can immediately return goods which have not been ordered or do not meet specification to the supplier. One copy goes to the supplier, one copy retained by the issuing team, one copy going to AP.	
• Reduce the number of G/L codes. Particularly in expenses. Many companies manage successfully with as little as 100 P&L account codes. The more G/L expense codes you have the more coding errors you may have.	
• Ensure the mail room understand the need to get all hard copy approved invoices to AP on time. At month-end if they understand what the AP team is doing, they will think of ways to get the internal mail working quickly at this critical time in the month.	
• Set up repetitive payments before you receive invoices.	
• Make a list of tasks that have no written procedures and then write up the procedures for these tasks for inclusion in the departmental procedures manual.	
• Either consolidate all purchasing of stationary through one supplier and purchase via the purchase card, or have the supplier have consignment stock in handy locations with one consolidated invoice being sent to AP. Apportion stationery based on an arbitrary split.	
Administration improvements for AP teams without procurement or electronic ordering systems	
• Replace a voucher control document with a stamp that goes directly on the invoice. It contains spaces where required information, such as voucher number, supplier number etc., can be filled in.	
• Limit any post payment review to DCs or cheques over a large dollar amount, which will vary from company to company.	
Improving accounts payable cut-offs	
• Cut-off budget holders accruals at 5pm day-2	
• Limit BH accruals to material amounts only e.g. no accrual JV for less than $xxx, no one item on the accrual for less than $xxx	
• Cut-off accounts payable at noon day-1	
Staffing	
• Consolidate purchasing and accounts payable into a single work	

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18. Appendix 3 Useful letters

Memo from accounts payable sent to new budget holders

Date

Dear

Welcome from the accounts payable team

The accounts payable team is committed to adopting and implementing best practice. To this end we need to work in an effective partnership with all budget holders.

Practices in our organization may differ significantly from those you are used to.

We would like to meet with you for 20 minutes or so to go through our procedures, which will help you in your role as a budget holder. We have a short 20-minute PowerPoint presentation, which we will present on a laptop at your desk. Please advise us of a suitable time within the next few weeks.

In the meantime you might like to visit our intranet page on xxxxxxx

We look forward to offering you a seamless service.

Kind regards

AP Team Leader

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Memo from CEO sent to all budget holders

Date

Dear

Attending A/P training

You will all be aware that we have decided to implement a new accounts payable package. According to research these implementations are prone to failure.

The AP licenses and associated costs will be over $xxx,000 and thus it is imperative that we make this project a success—first time!

We are also using this implementation to radically alter the way we process accounting transactions. This means that we are implementing processes that will mean you are spending fewer nights and weekends working on administrative matters.

You will need to attend in person. So please select one course and e-mail back today. I will be taking a personal interest in this and will be monitoring course attendance and no-shows.

Should you feel that you are unable to attend please first contact me so we can discuss the reasons.

Kind regards

CEO

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Letter from accounts payable team leader to suppliers

Date

Dear

We have thrown away the cheque book—and are at a loss as to how to pay you

We are a modern company and have now thrown away the cheque book, which is a "Charles Dickens technology." In fact the last check is mounted in a frame in the CEO's office. Other than trying to recycle that mounted checque, little chance as the CEO is proud of its symbolic meaning, we have no means of paying you.

You should be aware that we have sent you a number of direct credit forms for completion.

One solution is that you complete this direct credit form today and fax it to us at xxxxxxxxxxx, another solution is that you direct debit us, alternatively we could start a barter system (I am joking!).

We value the relationship we have with your company and are looking at ways we can link our IT systems with yours so that we only process a transaction once between us. Our IT experts will be in contact with yours sometime in the future.

Let's move in the 21st century together!!

Kind regards

AP Team Leader