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Invoices

Invoices can present a real challenge to the payment function. If any of the aspects are not handled correctly, the payment process bogs down. In this chapter, we'll look at

- Invoice handling: approvals
- Forwarding invoices
- Verifying invoice data
- Invoice-coding standards
- Short-paying invoices
- Paying small-dollar invoices
- Handling unidentified invoices
- Handling invoices without invoice numbers

INVOICE HANDLING: APPROVALS

Background

As most reading this are well aware, Accounts Payable (AP) does a three-way match before paying an invoice. This entails matching the

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- Purchase order (PO)
- Invoice
- Packing slip

In theory, if all POs are filled out completely and correctly, if receiving thoroughly checks all packing slips, and vendors create accurate invoices, the AP department should be able to pay the invoice without input from any other party. However, few companies are at this point. Even at those companies in which the documentation is good, management often demands that the original purchaser get involved and approve the invoice for payment. Part of the reasoning for this is that often POs are not completely filled out and special pricing or payment deals are not reflected on the PO. Unfortunately, the purchaser who neglects to include special terms on the PO is just as likely to forget about them when the invoice shows up.

With no formal policy governing where invoices are sent, first invoices sometimes float around the corporation, laying the groundwork for all sorts of poor practices. For starters, the invoice often fails to arrive in any location that could process it before the end of the early discount period. Additionally, it provides cover for those approvers who tend to let the invoice lie on their desk for weeks without taking action. Then, when the supplier is threatening to put the company on credit hold, these individuals deceitfully claim that they “sent that invoice down to Accounts Payable for processing weeks ago.”

Recent innovations in the area of electronic invoicing are rapidly changing the way we think about invoices. This is reflected in some of the following recommendations.

Best Practices

At most companies, only certain people can approve invoices for payment. Most companies limit this ability by rank, job re-

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sponsibility, type of purchase, and sometimes even the dollar amount. In the best of circumstances, the board of directors should have given these approvers authority, and AP should have copies of these board authorizations.

Copies of the list, if it exists in paper format, should be given only to those who need it, and in all cases should be filed away carefully. The list should not be hung on the wall for easy reference or left lying on a desk where anyone walking by could see it and easily make a copy. When the list is updated, as it periodically will be, old copies of the list should be destroyed.

If you want to be super careful, new copies of the list should only be exchanged for the old ones, and all the old ones can be destroyed together.

The fact that an invoice arrives in Accounts Payable with a senior executive's signature on it does not mean that the senior executive actually approved the invoice. To protect the AP staff, the department should have signature cards containing the actual signature of anyone authorized to approve invoices. It should be the executive's real signature, the one he or she uses every day, and not the Sunday-school signature. More than one executive has taken the time to sign a signature card carefully, when in actuality everything else has an illegible scrawl on it. In these cases, the signature card should have the illegible scrawl as well, or the AP associate might suspect fraud when the signature cards are checked.

We are not suggesting that these cards be checked for every invoice that shows up. However, spot checking once in a while is not a bad idea. And, obviously, if a suspicious-looking signature arrives on an invoice, the signature cards should be checked immediately.

Ideally, invoices will arrive electronically. Admittedly, today, only a small portion of invoices is received electronically, but that number is growing by leaps and bounds. When an invoice is received electronically, it should be forwarded to AP

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for processing. Using workflow, the AP department can forward the invoice for approval to the appropriate approver. This is based on information provided on the invoice integrated with the approver list discussed earlier.

Companies should include in their workflow programming an escalating approval feature. What this means is that if the first approver does not respond within a given time frame, say five days, the invoice is automatically routed to the next higher approver in that chain of command. This not only takes care of tardy approvers, but also vacations and unexpected absences. It simultaneously creates an audit trail for everyone to see. No longer can Purchasing claim it sent an invoice back to AP when it is still in the department. Finally, the audit trail feature combined with escalating approvals make it far less likely that managers will relegate invoice approval to the bottom of their workload—especially when not approving invoices may actually create more work for their immediate supervisors.

When companies receive paper invoices, as virtually every company does, the invoices should be directed to AP rather than the individual purchasers. This allows AP to log the invoice in and forward it to the appropriate approver. It helps get a handle on the voluminous paper that can spread throughout a company without any boundaries. Ideally, when all invoices are directed to AP, they can then be scanned and forwarded, as described above, for approvals. Even if the intricate workflow programming is not feasible, there is still some audit trail and the number of lost invoices is greatly reduced. The invoice never leaves AP, and thus the “opportunity” to get lost on someone’s desk or in the mail is diminished. In order to make such a process work efficiently, vendors should be directed to include the name of the purchaser on all invoices. Companies that make this process work the best are those that send invoices without the purchaser’s name back to the vendor.

Having all invoices come first to AP also introduces another control against employee fraud. Invoices cannot be al-

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tered, nor can they show up out of the blue with what looks like an executive's signature on them. By scanning the invoices and forwarding them for approval, it makes it all the harder for a scheming employee to forge a boss's signature.

Almost Best Practices

In the absence of board authorizations, AP should have a list of who can approve what purchases. A high-level executive at the company should sign off on this list. Otherwise, it is exceedingly easy to have fraud, and AP could end up taking on a responsibility it should not.

If it is not possible to get imaging—even an inexpensive model—in AP, a policy still should be set up for receiving invoices. If all the invoices come to AP first, it will be necessary to set up a log to track which invoices were received, their due dates, and whom they were sent to for approvals. This can be a tedious and time-consuming, paper-intensive process—as copies should be made of the invoices before they are sent out for approval.

Having the invoices come first to AP helps with the possible employee fraud issue discussed earlier.

Reality Check for Accounts Payable

While sending invoices lacking the purchaser's name back to suppliers may lead to a smoother AP operation, not all management teams are going to think this is a great idea—especially if key suppliers balk or complain. Thus, it might be a good idea to get management on board before instituting this policy.

Worst Practices

Worst practices include

- Having no policy regarding where invoices should be sent for payment

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- Not having a list of authorized approvers
- Allowing anyone to submit invoices for payment.

FORWARDING INVOICES

Background

On the face of it, it would seem that where invoices were mailed should have little impact on the payment function. Unfortunately, this is not the case. In a typical company with no invoice forwarding policy, invoices that are addressed to the company but not a particular individual can float for weeks from desk to desk before eventually ending up in AP or on the desk of the purchaser. When invoices are not properly routed,

- Any chance of earning an early payment discount is lost.
- Duplicate payments can occur when a second invoice is sent.
- Late fees can occur.
- Vendor relations are weakened.

Best Practices

Companies need to have a firm policy regarding where invoices should be sent. This can be one of two places:

1. The AP department
2. The original purchaser

Either way works just as long as there is consistency in the approach. There is a slight advantage of directing all invoices to AP. When the invoices are sent directly to AP, a best practice is to insist that the purchaser's name be included on the invoice so the AP staff knows where to forward the invoice for approval. Some companies adhere to this approach, strictly re-

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turning invoices to vendors if they arrive without the requestor's name.

The appeal of sending the invoice to AP first is that AP can easily track invoices. The downside is that, if electronic invoicing is not used, AP needs to make copies of the invoices before forwarding them for approval unless the following are used:

- Scanning
- Negative assurance
- Assumed receipt

If the invoice is sent first to the original purchaser, AP may find itself inundated with “Where’s my money?” and “Did you get my invoice yet?” calls. However, many simply advise the caller to telephone the purchaser.

Electronic invoicing (e-invoicing) eliminates this problem completely.

Almost Best Practices

Direct the mailroom to forward all invoices—regardless of whom they are addressed to—to the AP department for processing.

Reality Check for Accounts Payable

Even with the advent of e-invoicing, paper invoices will be here for the foreseeable future, although hopefully in smaller numbers. Thus, it is imperative that a policy for forwarding invoices be established.

Worst Practices

Worst practices include having no policy on this issue.

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VERIFYING INVOICE DATA

Background

In an ideal world a company would sell its customers products and would in due course be paid for those goods according to the prenegotiated payment terms, once the purchaser had verified that it had received what it had ordered. (Some reading this may recognize this as the underlying principle of evaluated receipt settlement [ERS].) Unfortunately, there is a lot that can and often does go wrong with this simple scenario. Some of the things that go awry include

- Terms on the invoice not matching what was negotiated
- Partial shipments
- Damaged goods
- Prices on the invoice not matching the negotiated prices
- Inclusion or exclusion of related charges such as freight, insurance, and so on
- Sales and use tax charged/not charged

Consequently, the process for paying for goods can be complicated, especially when it comes to verifying the suppliers' invoices.

Best Practices

Once the invoice has been approved (if that is required), a three-way match should be performed on all invoices over some minimal level. Small-dollar invoices will be addressed further on. The AP associate should match the PO against the invoice and packing slip to verify that the goods ordered have been received and the price and other fees (e.g., tax, insurance, freight) are as agreed.

Differences must be resolved before the invoice can be

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paid. If the difference is in the pricing, the better price should be taken. If the lower price happens to be on the PO, not only should the lower price be taken, but Purchasing should be notified as well. The reasoning for this is that if a lower price is put on an invoice, it probably indicates that the supplier is offering a lower price to other customers and Purchasing should pursue that for your company.

Accounts Payable can do a good job on this issue—especially when it comes to terms, insurance, freight, and so on—only if the PO is completely filled out. Often, Purchasing does not include special deals on the PO, and AP never knows about it. If the supplier does not include the special terms on the invoice—and this often happens—AP will pay according to the standard terms or pricing, and the company is the loser. Thus, a best practice that needs to be emphasized with Purchasing is that POs must be completely filled out.

The process described above can be done online. The best systems now have online dispute resolution features built in, especially when using e-invoicing.

As mentioned earlier, some companies use a process known as evaluated receipt settlement (ERS). This eliminates the invoice from the process—the document that many AP professionals believe causes the most problems with the three-way match. Using ERS, the AP staff receives POs from Purchasing, and when it gets the packing slip from receiving, it pays according to the terms indicated on the PO. Companies that insist that the PO be completely and accurately filled out have taken the first step toward being able to get rid of the invoice. If the PO line is under control and the professionals on the receiving dock thoroughly check the packing slips on incoming orders, a company could effectively use ERS. Use of ERS has to be negotiated with suppliers before implementing. This is also known as pay-on-receipt.

In addition to verifying that the PO matches the invoice regarding price and other fees, many companies are now tak-

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ing the verification process one step further with a contract management function. As the title implies, invoices, sometimes after the fact, are checked against contracts to ensure that pricing, terms, and so on are charged as agreed upon in the master contract agreement. This typically occurs only with major suppliers.

Almost Best Practices

Obviously, going through a thorough three-way match can be an expensive process for small-dollar invoices. There is an alternative. First, the company must set a dollar cutoff for use of one of the alternatives. This cutoff can be as low as \$100 or as high as \$5,000 or \$25,000. Companies that institute one of the following can start small and then increase the level as they get comfortable with the process. Corporate culture will also have an impact.

The first approach is referred to as negative assurance or assumed receipt. When AP gets an invoice for an amount under the agreed-on level, an e-mail is sent to the person who would approve the invoice, indicating key factors, such as payee, dollar amount, and so on. If imaging is being used, a copy of the invoice can be attached to the e-mail message. If AP does not hear from the approver within a preset number of days—typically 5 to 10 days—the invoice is paid. The goods are assumed to have been received unless the purchaser notifies AP to the contrary.

Reality Check for Accounts Payable

Many approvers don't check the information on invoices, nor do they bother to verify that the invoice they are approving today wasn't approved last week or last month. That's part of the reason so many duplicate payments occur.

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Worst Practices

Worst practices include

- Allowing Purchasing to send POs to Accounts Payable without complete and accurate information
- Not following some of the best practices described under the “Duplicate Payment Avoidance” section in Chapter 3.

INVOICE-CODING STANDARDS

Background

Coding invoices is one of those functions that no one really focuses on too much. However, handled ineffectually, it can and does lead to duplicate payments and opens the door to fraud. It is one of those functions that at first glance seem like a non-issue. What do you mean you want standards for coding invoices? The words *control freak* may be running through your mind. But consider the following simple case. Consider the company AT&T. Its name could be coded:

- American Telephone and Telegraph
- AT&T
- A T & T
- A T and T

Even if you eliminate the first entry as unlikely, it is easy to see how two competent AP specialists could code the company name in any one of several ways, none of which would be inaccurate. Each data element has similar issues.

Best Practices

Taking the process one step further, consider the invoice number. As those familiar with AP are well aware, the invoice num-

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ber is crucial for identifying potential duplicate payments. Thus, it must be coded correctly. Do you code leading zeros or not? There is no right or wrong answer. Each company must decide if it wants to code them and then set a policy. Each aspect of invoice-coding policy should be addressed, a policy set, and then communicated to all processors. It may seem excessive, but it will eliminate numerous problems down the road.

Presented below is a policy developed by Apex Analytic's Jim Arnold. It is a good policy but definitely not the only one that works. Readers can use it or modify it to meet their own requirements.

Sample Policy: Dos and Don'ts for Invoice Coding

- No periods (.), commas (,), or other punctuation marks (e.g., ! or /) keyed into the invoice number field

VALID

S19408C004

INVALID

S/19408C004

- No leading zeros keyed into the invoice number field

VALID

S19408C004

INVALID

000S19408C004

- No spaces keyed before, in between, or after the invoice number

VALID

S19408C004

INVALID

S 19408C004

- No symbols or characters including dashes (-) and apostrophes ('), keyed into the invoice number field

VALID

S19408C004

INVALID

S-19408C004

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- Alphanumeric invoices should *not* be modified if alpha characters are a true part of the invoice number. Beware of field names or labels, such as INV, IN, or NO that are seen before or after the true invoice number and do not include them as a part of the invoice number.

VALID

S19408C004

INVALID

INV S19408C004

- If the invoice number exceeds the maximum number of digits in the invoice number field, utilize the maximum number of digits starting from the far right and going left (by starting to the right you are ensuring that the unique sequential numbering scheme is utilized as the invoice number).

ACTUAL INV #

P1001S19408C004

VALID

S19408C004

INVALID

P1001S1940

- Establish a standard invoice numbering scheme for recurring payments such as utilities, or monthly statements that don't have a true invoice number. If the account or customer number is provided, begin the invoice number with the account number + the month + year as a suffix at the end in MMY format. For weekly statement billings, also include the day so the invoice number will equal the account, or customer number + month + day + year suffix in the MMDDYY format. For telephone services, use the telephone number starting with the area code + phone number + month + year suffix in MMY format.

VALID

33627246691202

INVALID

336272466902

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- For invoices with a true invoice number, do not add alpha or numeric characters to the invoice number. (See following exceptions.)

VALID

S19408C004

INVALID

RRS19408C004

- Sometimes invoice numbers must be altered to identify separate items or balances due. Establish a policy that outlines these exceptions. Examples include
 - *Sales tax paid separately.* Alter invoice number by adding the suffix “TX”.
 - *GST paid separately.* Alter invoice number by adding the suffix “GST”.
 - *Credit on invoice.* Alter invoice number by adding the suffix “CR”.
 - *Freight paid separately.* Alter invoice number by adding the suffix “FRT”.
 - *Balance due.* Alter invoice number by adding the suffix “BD”.
 - *Split invoice for payment.* Alter invoice number by adding the suffix “A”, “B”, and so on.
 - *Prepayment.* Alter invoice number by adding the suffix “PP”.
- Establish a standard procedure that outlines the alternative information to be used as invoice numbers when a true invoice number does not exist. For example:
 - *Subscriptions.* For subscriptions that do not have an invoice number, use the subscriber’s last name + first name initial + date of the statement in MMDDYY format.

VALID

SmithJ010102

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- *Hotel invoices.* For hotel bills that don't have an invoice number, use the folio number + the last day of the stay in MMDDYY format.

VALID

55246010102

- *Tuition, seminars, or conferences.* For these items that don't have an invoice number, use the attendee's last name + first name initial + the last day of the event in date format MMDDYY. For tuition, utilize the student's last name + first name initial + semester + year in YY format.

VALID

SmithFall02

- If the invoice has other tracking information and no invoice number, use one of the alternatives. Alternative invoice numbers may include order number, document number, reference number, registration number, billing number, item number, job number, membership number, and so on. In case more than one of these identifiers exists, have a policy that identifies which information should be used. Preference in order, for example, could be (1) order number, (2) billing number, and so forth.
- Review your AP and purchasing systems to identify unique internal identifiers for processing petty cash, postmaster, or budgeted amounts such as grants and contributions that would assist in the invoice numbering sequence to eliminate duplicate payments and give each item processed in AP a distinctive identity.
- Only as a last resort use the date that exists on the attached vendor documentation as the invoice number. Do not use the due date. Avoid using the check request date whenever possible. Date format should be MMD-DYY.
- Handwritten changes to the true invoice number should not be utilized.

Accounts Payable Best Practices

Note: The invoice-coding standard should be coordinated with the master vendor file coding/naming policy. Ideally, the two should handle the same issue in the same manner.

Almost Best Practices

- If no invoice-coding standard exists, use the standard naming convention used when setting up master vendor files. Although it is not perfect—it doesn't address certain issues peculiar to invoices—it is better than nothing.
- If an invoice-coding standard does not exist, at a minimum, establish policies for coding the invoice number. If various staffers code invoice numbers differently, duplicates will seep into the process.

Reality Check for Accounts Payable

Even with a clear policy, processors will occasionally veer off. As soon as this is noticed, the AP manager needs to correct the situation; without conformity on this issue, duplicate payments will slip through. If the thought process behind the policy is explained, most processors will understand and abide by it.

Worst Practices

Worst practices include not having a policy at all. Each processor will use his or her best judgment, leading to duplicate payments.

SHORT-PAYING INVOICES

Background

When most companies print their checks, they print identifying information on the accompanying remittance advice. The

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most important piece of information usually is the invoice number. It gives the vendor the information it needs to apply the cash to the correct account. Certain companies send along a stub with their bills. They require that this stub be returned with the payment. This is so the vendor can apply the cash payment correctly.

However, as those reading this are well aware, the amount of information that can be included on a remittance advice is severely limited. When an invoice is short paid, and the reasons for that are not communicated to the vendor, it is inevitable that the vendor will call AP for an explanation. Unfortunately, by the time the vendor gets around to calling, days, if not weeks, will have passed and the AP associate will have long forgotten why the deduction was taken—assuming that the person getting the call was the person responsible for the deduction in the first place.

Deductions are frequently made for various reasons, including

- Discounts for early payment
- Short shipments
- Damaged goods
- Advertising allowances
- Prior credits
- Insurance or freight incorrectly charged
- Pricing adjustments
- Overshipments
- Advertising allowances

Best Practices

Whenever invoices are not paid in full, it is important—not only to keep the AP department running smoothly, but also to help maintain good vendor relationships—that the rea-

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sons for the deductions be communicated in as much detail as possible to the vendor. This does not ensure that the vendor will agree or won't call, but it will eliminate many needless calls. Thus, even though it might take a little extra time when the invoices are being processed, put detailed notes in the file as to the reason for the deductions. This can be important if the matter is raised after several months or in the case of an audit. The detailed notes will be worth their weight in gold.

The best approach is to include a detailed breakdown for the reasons for the deductions. Those making electronic payments will find that this information can often be shared as part of the electronic remittance advice. Alternatively, it can be e-mailed to the person at the vendor doing the cash applications.

Almost Best Practices

A low-tech approach, especially useful with payments made by check is to develop a form that lists the most common reasons for short payments. Then the AP associate can simply check off the appropriate field and attach it to the check. These forms should be developed based on the company's past history and industry. They should be periodically reviewed to ensure that they contain all relevant factors. There should be several blank lines at the bottom for any details that will be useful to those using the form.

There is a small group of accounts payable organizations that never short pay an invoice. They hold the view that they will not pay an invoice until it is prepared correctly. They return these invoices demanding that the supplier correct them and when the invoice is prepared to their satisfaction, they pay it. While this approach does hold great appeal, it is not one that will work in most organizations.

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Reality Check for Accounts Payable

Don't expect that the form will put an end to vendors' complaints. It will simply eliminate one round of calls and one round of investigations as the information typically provided in that round will have been provided on the form.

Worst Practices

Worst practices include sending along a short payment with no explanation. The vendor will call and, even worse, may end up putting the company on credit hold thinking it is owed money—funds that were legitimately deducted from a payment. The name of the game in this case is communication—you can't have too much of it.

PAYING SMALL-DOLLAR INVOICES

Background

Small-dollar invoices are the bane of every AP department. With estimates ranging as high as \$50 to process an invoice, it does not make a whole lot of sense to process hundreds of small-dollar invoices each day. Yet, that is precisely what happens in numerous accounts payable organizations across the country every day.

Getting an invoice for a \$10 purchase makes little sense to either the seller who has to produce the invoice, mail it to the customer, track its payment status, apply the cash, and then maintain a bank account to process the payment. Similarly, processing an invoice, getting approvals, cutting a check, getting that check signed and mailed makes even less sense for the purchaser.

While both sides may agree that the transaction described above doesn't make a whole lot of sense, many still engage in it every day. There are better ways.

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Best Practices

The goal is to find ways to eliminate invoices for small-dollar purchases. To put this issue in perspective, begin by doing an analysis of the enterprise expenditure by invoice amount. If your company is anything like most firms, you will discover that the old 80–20 rule kicks in. With 80 percent of the invoice volume covering 20 percent (or less) of the total spend, companies that don't take advantage of some of the newer alternative strategies are not making the most of their AP resources. All of the following strategies will help eliminate small-dollar invoices:

- Use purchase cards (p-cards) to eliminate all small-dollar invoices.
- Move small-dollar invoices to e-invoicing approaches, especially for those vendors who submit numerous invoices.
- Move to summary billing. Paying from statements (for those suppliers who have many small-dollar invoices). Once payments are to be made from statements, no invoices from the statement suppliers should be honored.
- Have the supplier send along an Excel spreadsheet (once a day, week, or month, as appropriate) and upload the information for processing.
- Have employees who submit small-dollar invoices, pay them themselves and include the items on their travel and entertainment (T&E) reports for reimbursement purposes.

While not all the strategies suggested will work at all companies, several should help most get their small-dollar invoice problems under control.

Some companies, and again this is something that not all companies are willing to do, take an aggressive approach to small-dollar invoices. When an invoice is submitted for pay-

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ment that could have been paid using one of the strategies discussed above, that invoice is returned to the submitter with instructions on how to pay the invoice. While this does take additional time and effort on the part of the AP associate processing the invoice, in the long term it trains employees on the correct way to handle small-dollar invoices.

Almost Best Practices

Should the company have a petty cash box (heaven forbid), small-dollar invoices can be funded from the box with an employee paying the invoice with his own credit card.

Reality Check for Accounts Payable

No matter how hard the AP staff works to completely eliminate small-dollar invoices, they will appear—and have to be processed. The goal is to minimize these annoyances.

Worst Practices

Worst practices include taking no action with these annoying invoices.

HANDLING UNIDENTIFIED INVOICES

Background

Frequently, an invoice will show up in the AP department with no identification as to who ordered the product. Occasionally, these invoices will float from desk to desk throughout the company before finding their way into AP. Sometimes, by looking at what is included on the invoice, a savvy AP associate will be able to figure out who the likely purchaser is and will then forward the invoice to that person for approval.

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However, that is frequently not the case, especially in the case of generic goods like printer cartridges or paper for the copy machine. Often, the dollar amount involved is small and does not appear to be worth the time and effort to research who ordered the goods.

Best Practices

The best approach, although one that not every management team is comfortable with, is to send these unidentified invoices back to the sender, asking them to indicate who ordered the goods. This is especially important in the case of small-dollar items. (See the “Worst Practices” section.)

Almost Best Practices

If it is not feasible to simply return the invoice, pick up the phone and call the vendor. When provided with the information, request that in the future the vendor include the requestors’ names on invoices. If this is a recurring problem, keep a list of vendors who routinely omit the purchasers’ name along with the employees’ names who regularly order from these companies. Again, ask the employees to request that their name or department be included on all invoices.

Reality Check for Accounts Payable

This is one of those headaches that in all likelihood will never go away completely. However, AP should do what it can to minimize the problem. By working with these suppliers, many of whom are small and will be amenable to listening to suggestions (rather than demands) and employees, AP will be able to make a dent in the problem.

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Worst Practices

Worst practices include simply paying for the goods, reasoning that the dollar amount is too small to bother with. This can quickly get your company on the sucker list. More than a few companies out there prey on overworked AP departments. They send along invoices for goods not ordered, knowing full well that small-dollar invoices are often paid without authorization. Once you pay that unidentified invoice, your company will be hit over and over again—and probably for increasingly larger amounts of money as time goes on.

HANDLING INVOICES WITHOUT INVOICE NUMBERS

Background

Invoice numbers are extremely important when it comes to processing invoices. They are the primary way that most companies identify invoices and check to see if they have already paid a particular item. An invoice without an invoice number is much more likely to be paid twice than one that has this key identifier. Yet a large number of invoices routinely arrive without invoice numbers, creating all sorts of headaches for the companies that receive them.

That's just the beginning of the problems. When the customer goes through its computer files, it will search to see if the particular invoice number has been paid. Additionally, most accounting programs require an invoice number in order to generate a payment.

So, to get around these problems, most companies assign invoice numbers to those invoices that arrive without these important identifiers. If not done in a manner that will create unique identifiers, the system will regularly dump out a large number of payments when any duplicate payment check pro-

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grams are run. The key is to do it in a manner that does not create more problems that it solves.

Best Practices

The important facet of this discussion is to recognize that invoices without invoice numbers are a problem and to devise a system to deal with the issue that does not create additional problems at the same time. The best technique is probably to make up a dummy number that includes some unique identifier to the vendor, for example, a combination of digits from the vendor's phone number and a running total.

If you are a large customer of a smaller vendor, you may be in a position to impose your will and get that vendor to incorporate some best practices in its operations. Recommend (insist?) that it start putting unique invoice numbers on its invoices.

Almost Best Practices

Another ploy is to use a combination of the account number from the master vendor file and the date. This works well for those vendors who do not send in more than one invoice per day. However, it will fail at those companies that have the potential to receive more than one invoice per day from a vendor, for example, temporary employment firms and so on.

Reality Check for Accounts Payable

Invoices without invoice numbers create huge headaches in AP. Even if you have a wonderful system for creating an invoice number, that number will not be of any use when discussing open items with the vendor as it does not know the invoice number and if you refer to that identifier, the vendor will have no idea what you are talking about.

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Worst Practices

Using the date to assign an invoice number is likely to cause problems, as you will probably end up with duplicate invoice numbers. Some use a combination of the vendor number and the date. Again, this can cause trouble if you receive more than one invoice from the same vendor on the same day.

Creating an invoice number using the account number when it bears any relation to the taxpayer identification number or a person's Social Security number also can cause problems. There have been instances in which unscrupulous employees (yes, there are a few of those) have taken the Social Security numbers and used them in an unethical manner.

CASE STUDY

How One Pro Took Accounts Payable Out of the Picture when Resolving Customer Discrepancies

Does your AP staff waste endless hours trying to resolve discrepancies with the Purchasing department? Jim Heard at Dana Corporation found a great way to solve this problem. The company refers to the mechanism as a trouble board. "The trouble board," says Heard, "is a communication tool between accounts payable specialists and buyers. Since there can be more than one buyer at a plant, there are multiple trouble boards, one for each buyer code on our system." What happens if one buyer uses more than one code? Heard says the company has the ability to combine these into one trouble board to simplify its maintenance of the system.

Accounts Payable Best Practices

PURPOSE OF THE BOARDS

If the three-way match were perfect, there would be no need for Heard's trouble boards. However, as those reading this are well aware, there are often discrepancies in the three-way match. The rationale behind the trouble board was to give each buyer hands-on ability to approve an option of payment necessitated as a result of a mismatch of the three-way match. In other words, explains Heard, quantities or prices on the PO are different from those on the invoice. The boards deleted faxes and phone calls to the buyers across the United States and eliminated duplication of handling in cases in which the buyer approves invoice quantities and prices.

There are additional benefits to the AP department. The trouble board items do not require additional handling by an AP specialist. "Once the buyer approves the invoice," says Heard, "it is transmitted to Dana Corporate for payment the day after the buyer gives the approval." This entails no additional effort on the part of the AP department.

APPROVAL DIFFERENT FROM THE INVOICE

As those who work in AP know, paying an amount different from the dollar amount indicated on the invoice can create huge headaches at a later date. But not at Dana Corporation. "In the case where a buyer approves receiver quantities or PO pricing contrary to invoicing, the system creates a debit memo or credit memo to properly carry out the buyer's decision, but the item is put on hold pending accounts payable specialist handling," explains Heard. He says that the reason for this approach is the possibility of additional charges needing to be added to the automatic memo to recover freight or taxes that could not be automatically calculated within the system.

Invoices

WHAT'S NEEDED TO IMPLEMENT A TROUBLE BOARD

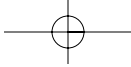
While this sounds like a great idea, not every company will be able to implement the model exactly the way Dana Corporation did. "The whole concept of a trouble board," says Heard, "was made possible by the availability of electronic POs and receipts within the system." He says that Purchasing employees resisted the change, but after two years, it is well accepted.

There is another reason the trouble boards work well. A tolerance exists within the system that allows the company to place parameters within the system to keep petty discrepancies from hitting the trouble board.

FUTURE ENHANCEMENTS

Heard is always looking for ways to make existing processes work better. Another reason for allowing the tolerances was that the boards are plant specific, not supplier specific. The variation and mix of merchandise being purchased is best served by a supplier-specific tolerance.

Heard plans to address this issue in the near term, which he defines as within the next three to four years, depending on information technology (IT) resources. Why so long? "Once a system functions, enhancements such as this take a back seat to implementations in progress. Over the next year, implementations and enhancements will be hard to come by," he explains.



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