

CHAPTER 1

INVOICE HANDLING

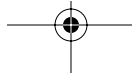
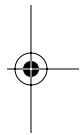
1.1 INTRODUCTION

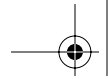
The primary function of any accounts payable department is to pay the company's bills. This deceptively simple concept can, and usually does, get complicated. When the invoice is presented for payment, most companies match it against a purchase order and a receiving document, and *if* all three match, the invoice is paid on or after its due date. This is what is referred to as the *three-way match*, a term accounts payable professionals know as well as they know their own names.

Note

Bills for businesses come in the form of invoices and will be referred to as such for the remainder of this book.

Some might say that this match is where the problems start, but in actuality, the problems can and often do start long before it takes place. Incomplete purchase orders, purchase orders never completed, purchase orders never sent to accounts payable, inaccurate purchase orders, lost invoices, late invoices, early invoices, inaccurate invoices, incorrect receiving documents, receiving documents not checked, and invoices sent in for payment two or more times are just some of the problems that can occur before the match takes place. You will note that all of these problems are caused *outside* the accounts payable department, but will all have to be rectified by someone *in* accounts payable. And, as you read this book, you will see that this is just the beginning of the issues faced by the professionals who work in the department. When it comes to accounts payable, there is definitely more than meets the eye.





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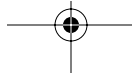
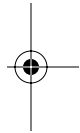
1.2 THE INVOICE

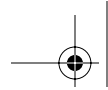
Invoices are usually sent by the supplier as soon as the shipment is made. However, a few crafty vendors predate them. The reason for this is simple: The invoice does not have to be paid until a set number of days after the invoice date—although some in the field say the set number of days is after the receipt of the invoice. Regardless of which approach is used by your company, it is in the best interests of your supplier to get that invoice in your hands as quickly as possible to start the clock ticking.

Where the invoice is sent is also an issue. Some companies have them sent straight to the accounts payable department for processing. This makes a good deal of sense if purchase orders are filled out entirely and correctly. In fact, if there are good controls on the purchase order, then—in theory—there would be no reason for the invoice ever to go anyplace other than accounts payable. However, in many organizations, there are problems with the purchase order, so the invoice goes to the purchaser for approval before payment.

Even in those organizations where an approval is needed in order to make payment, invoices are sometimes sent first to accounts payable. Why? So they can be logged in and accounts payable can follow up to make sure they are returned on a timely basis. It seems that in many organizations invoices have a way of disappearing into thin air, with no one ever admitting to having received them. Then, when the supplier calls looking for payment and the invoice cannot be located, the supplier is asked to provide a copy, which it gladly does.

While at first glance this may not seem to be a big deal, it is. First, much time is wasted looking for the missing invoice. When it cannot be found and a second is sent, the possibility of a duplicate payment has just been exponentially increased. For those who think a mountain is being made out of a molehill, reserve judgment until Chapter 7, “Errors and Duplicate Payments,” is read. Delays of this sort also mean that any discount that might have been available is lost. But perhaps the biggest problem occurs when the missing invoice suddenly appears. In many cases, both the original and the copy end up in accounts payable approved for payment. Depending on the controls in place, the second payment may or may not be caught! The phenomenal growth of payment recovery firms (see Chapter 25, “Post-Audit Firms”) gives testimony to the fact that this is a serious issue in corporate America today.





1.3 PURCHASE ORDERS

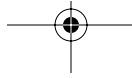
In the best of all worlds, the purchasing department fills out a document known as the *purchase order* (PO) when ordering goods. This document should contain every tiny detail regarding the order, including the price, quantity, payment terms, and all other pertinent details. A copy of this should be sent to accounts payable, where it will wait to be matched with an invoice and receiving document. Problems with purchase orders can include: not sent to accounts payable, not filled out correctly, and so on.

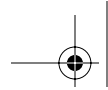
The other issue regarding POs is that there are many goods ordered in an organization for which no purchase order is completed. Magazine subscriptions, conferences, interest expenses, and rent are just a few examples; the list is endless. In these instances, a check request may be completed, or the invoice may simply be approved for payment and forwarded to accounts payable. These non-PO purchases represent a major headache in many organizations.

Some companies, especially those that insist on having a PO for every invoice, use *blanket POs*, which cover multiple orders and shipments and, typically, are used for repetitive purchases. When it comes to blanket POs, accounts payable professionals either love them or hate them; there seems to be no middle ground. Payables and purchasing managers like to use them with vendors from which they buy many times a month, to streamline the process. Others dislike them because of the lack of control. Either way, all seem to have strong opinions. Here is what some accounts payable professionals have to say about them:

- Jay S. Wood of GTE Worldwide Telecommunications uses blanket POs extensively. Wood notes, however, that due to the manner in which blankets are established, verification of receipt for goods and services remains a manual process. Wood also points out that they issue uncommitted blankets, but they do not commit those funds to the vendor. The blanket can be closed, reduced, or upgraded at any time.

The funds on the blanket PO are similar to funds in a checking account. They are there to pay the vendor, but GTE can discontinue the relationship with the vendor at any time and close the blanket—hence, the reason the funds are uncommitted to the vendor. On some occasions, Wood said, “We issue committed funds for a particular vendor, when we contract with the vendor for a particular service or supply at a preset price.”





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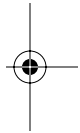
Any invoice received against a blanket PO requires an approval and verification from an authorized individual responsible for the goods or services on the PO. Adds Wood, “Once they approve the invoice, we process it and decrement the PO. Each PO has a life of one year, if it is not canceled sooner. Funds can be added to extend the life of the blanket, so long as it has not expired. We use blanket POs for such things as office supplies, equipment leases, office cleaning, and maintenance.”

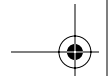
- Vicki Lindsey, accounts payable manager of RPC Inc., is another admirer. “We use blanket purchase orders for places that we buy from many times during a month. We give the vendors a purchase order number at the beginning of the month and tell them that everything we buy through the last day of the month should have that number. At the beginning of every month the vendors call us for a new purchase number. When our people pick up the merchandise during the month, they bring a delivery ticket back with them. We attach it to the purchase order; and when the invoice arrives, we simply match it with all the delivery tickets. [This] works well for us; we’ve done this for many years. You can also do weekly purchase orders, if preferred.”
- An anonymous accounts payable manager from Chicago does not seem to agree. “I think they’re a dumb idea! They simply tell a vendor that someone may order up to some amount from you, but often there are no controls in place to check to see whether expenditures are adding up to or exceeding the approved amount. Purchasing people like them because they think it helps control expenditures. All they do is create paperwork.”

As can be seen from these radically different points of view, blanket POs can work in some organizations but are not without their inherent problems (i.e., the control issues). Review your own operations before deciding whether blanket POs will work in your organization.

1.4 RECEIVING DOCUMENTS

The third part of the proverbial match, the receiving documents are, most often, the weakest link in the whole process. The reason is that the receiving departments in many organizations do not accurately check the goods that





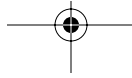
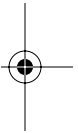
1.5 Proper Invoice Handling 7

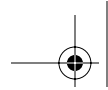
come through the department. Whatever is marked on the packing slip is often marked off as having arrived; no one in the receiving department actually counts.

1.5 PROPER INVOICE HANDLING

Those wishing to reduce the time spent with the receiving documents need to determine what changes can be made in the way their invoices are handled. The following suggestions offer accounts payable managers strategies to become more efficient in dealing with their company's invoices:

- *Insist that all items sent for payment be coded.* Many accounts payable clerks end up taking on the responsibility for coding something that is supposed to be done either by an accountant, a purchasing agent, or the person submitting the bill for payment. Insist that all invoices sent for payment include a valid general ledger (G/L) code.
- *Enter invoices one at a time.* Batch entry can cause problems. Entering invoices grouped by vendor as one invoice can cause problems. When there is a question about an individual invoice, it will be difficult to answer under such circumstances. It will also be difficult for the vendor to determine which invoices have been paid and which ones have had deductions taken.
- *Assign complete responsibility for accounts alphabetically.* This approach clearly delineates who is responsible for what and makes it easy to forward vendor inquiry calls, as well as invoices for payment.
- *Use adjustment letters to describe discrepancies to vendors.* Many of the calls from vendors to accounts payable stem from differences between the amount of money they believe they are owed and the actual amount they receive. Formulate adjustment letters to vendors and subcontractors to explain any deductions taken. This will greatly reduce the number of phone calls asking for explanations, and will make it easier for the accounts payable clerk when such calls do come in. The clerk will be able to easily determine why the deduction was taken in the first place. Another side benefit to these letters is that statements from these vendors will no longer contain open items that the company has no intention of paying.





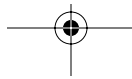
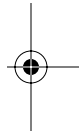
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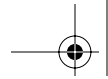
- *Work more closely with suppliers.* By letting suppliers know what the accounts payable requirements are for invoice processing, you will be able to streamline the voucher processing. This effective move can also lead to better relations with those suppliers.
- *Make better use of computer systems.* Paper-based systems are time-consuming and often inefficient. Teach people to look up invoices on the system, to wean them off the need to see the paper. The result will be a decrease in time spent both processing and searching for invoices in the files.
- *Enter data directly from invoices.* In some organizations, much time is gobbled up entering data into a data entry form. The information is then taken from these forms and entered into the computer system. This often-unnecessary step is just one more example of an unneeded process that can introduce errors into a system.
- *Require all invoices be sent directly to the accounts payable department.* Doing this one simple step, rather than having the invoice sent to the department that actually initiated the purchase, can save an enormous amount of time.

1.6 WHEN ACCOUNTS PAYABLE RECEIVES INVOICES LAST

Whether invoices should all be sent first to accounts payable and then to the person who needs to authorize the transaction, or vice versa, is an issue for debate. The traditional view is that if the invoices come to accounts payable first, the department can then track the invoices and follow up when they are not returned in a timely manner for payment. But why should accounts payable have to spend its time making sure others do what they are supposed to do?

(a) **CHANGING PHILOSOPHIES.** A small, but growing, number of companies are shying away from the traditional route and insisting that other departments handle their own invoice-processing responsibilities, without the accounts payable department overseeing their workflow. When this happens, accounts payable often gets invoices late, long after the company has any reasonable chance of qualifying for an early-payment discount. Worse, the invoice frequently gets lost, and when vendors call accounts payable looking for payment, they are told the invoice was never received





1.7 Entry by Month-End 9

and that another copy should be sent. Ultimately, in some companies, both the original and the copy end up being paid.

There is some hope on the horizon, thanks in part to technology, which is playing a big role in the changes in accounts payable. In those instances when invoices are received electronically, it almost doesn't matter who gets them first, as they can be forwarded effortlessly. With online lookup capabilities, everyone can check.

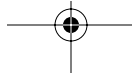
(b) **ORDER OF BUSINESS.** Although accounts payable would like to receive invoices first, this procedure is no longer followed by many companies. Either a new accounting system is installed or a change in corporate philosophy necessitates the change. Whatever the reason, accounts payable professionals should insist that the following procedures be instituted should their company take the accounts-payable-last route:

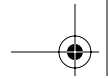
- Vendors should be supplied with new bill-to addresses that reflect the name and/or the department of the authorizer.
- Calls about payment status should be referred to the authorizer, unless there is a good online tracking system.
- Even with a good online tracking system, payment calls may still be routed to the authorizer, as accounts payable may be able to tell the caller only if a payment is scheduled, not why it has or has not been scheduled.
- Other departments must understand and fully accept their responsibilities in regard to vendor payment and stop blaming payment delays on accounts payable.
- Ongoing communication between accounts payable and approving departments is essential.

(c) **CLOSING THOUGHTS.** Don't be surprised to find some resistance to a move to the accounts-payable-last route. Other departments may not want accounts payable to get invoices last; many like the comfort of having accounts payable keeping track of payments for them.

1.7 ENTRY BY MONTH-END

Month-end cutoffs can cause real problems for the accounts payable department. Items that are not entered may not be paid on a timely basis,





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resulting in lost discounts or, worse, late fees. Those who deal with this issue on a regular basis know this is often the result of an invoice sitting on someone's desk either until the last minute or until the vendor calls looking for payment. In addition, many executives let the bills pile up, then send a big batch down to accounts payable at the last minute. When this coincides with a month-end cutoff, it is almost guaranteed to cause problems. And, if this should happen at quarter- or year-end cutoff, tensions are bound to increase, especially if the vendor needs to show the payment on its quarter- or year-end reports.

There are ways to avert this type of crisis. They include:

- Ask other departments that might have a lull at deadline time if some of the data entry work can be shifted there.
- Hire temporary workers to help with the overflow.
- Ask key suppliers to send the invoices a little earlier.

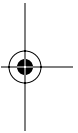
1.8 TIMELY APPROVALS

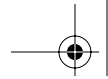
How often have you lost a discount because, although the invoice was received on a timely basis, you didn't have the necessary approval to pay it equally promptly? Once the invoice is received in accounts payable, it has to be sent to the appropriate party for approval.

E-mail can be used to facilitate this process. Some companies report success with using a transmittal sheet for control purposes. However, the best way to draw attention to this is to set up a special general ledger account for late fees. This draws attention to this largely hidden matter. Because the late fees will be aggregated in one place, it is relatively easy to show the financial impact. Of course, this account only shows part of the effect; the amount of lost discounts will not be similarly quantified. Still, it gives accounts payable professionals a starting point for quantifying the results of sloppy practices.

1.9 UNIDENTIFIED INVOICES SENT TO ACCOUNTS PAYABLE

A real time-waster for accounts payable professionals is the invoice that shows up bearing no clue as to who ordered the goods and whether the items were ever received. These are generally for items ordered without a purchase order. This puts accounts payable managers on the spot—if they





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allow it. A number of professionals indicated they do not pay such invoices, nor do they spin their wheels trying to determine who placed the order. When vendors call looking for such payment, they are simply told to contact the party who ordered the goods.

This solution may not be acceptable in all organizations, but it makes life a little easier in those accounts payable departments where it is used. It should be noted, however, that the lack of the desired information on the invoice may not be the fault of the company employee. It may simply be due to carelessness on the part of vendors that often are not fastidious in preparing invoices. Why should your staff be responsible for another company's slipshod practices?

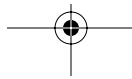
Whether or not the severe approach is used, the following steps can alleviate headaches caused by unidentified invoices.

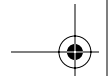
1. Send a memo or an e-mail to everyone in the company asking that all invoices include the name of the party ordering goods. This enables the accounts payable department to obtain necessary approvals and track down other needed information.
2. If managers agree, inform the appropriate staff that invoices received without this information will not be processed for payment.
3. Make sure that your policy is explained to all new hires.

Accounts payable professionals who are successful in getting their invoice handling under control will have taken one step on the path to a smoother-running department.

1.10 USE BEST OF TERMS

Pay according to the terms recorded on the purchase order and the quantity received. Some suppliers include terms on their invoices that, if not checked, would result in payments made earlier than the date agreed to by the purchasing department. Others include terms that are more stringent than those agreed to with purchasing. These are two reasons why getting a completely filled-out purchase order is so important. *Always* pay according to the purchase order, unless the terms on the invoice are better. Then use the terms on the invoice and inform purchasing so they can use this information the next time they order. Using this approach will result in the best of both worlds for the company.





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1.11 STRATEGIES TO USE WHEN SHORT-PAYING INVOICES

Accounts payable managers often pay an invoice for less than the amount on the original invoice. They take a discount if the invoice is paid early and make deductions for short shipments, defective goods, promotional programs, or for a variety of other reasons. The result of these actions is another phone call into the accounts payable department, requiring research time to determine the reason for the short-pay. Add these phone calls to the already overworked accounts payable staff, and the workload threatens to defeat even the most dedicated members. Fortunately, there are effective solutions to this problem. Several accounts payable professionals have found techniques to eliminate this phone call simply by sending a letter or issuing a debit memo or “just say no.”

(a) **LETTER.** The simplest way to handle short-pays is to include a letter along with the payment explaining why the invoice was paid short. Accounts payable professionals who use this approach successfully use a form letter. The letter contains a long list of common reasons for short-paying an invoice, and the accounts payable professional simply checks the appropriate box. These letters also typically include several lines where someone can add any appropriate additional comments.

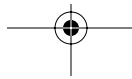
Those who use this letter are advised to keep copies of them, because collection managers who do not agree with the conclusions noted in the letter are likely to call to argue their cases. Having the letter readily at one's disposal will make handling of such calls much easier.

(b) **DEBIT MEMO.** Require debit memos for payment deductions taken on invoices.

(c) **JUST SAY NO!** A small group takes the view that no invoice should be paid until it is prepared correctly. This group of accounts payable professionals is well aware that any time an invoice is not paid for the original amount, but manually changed, the odds of a duplicate payment increase tremendously. Rather than put their companies at risk, they require an original corrected invoice.

1.12 GOODS IMPROPERLY ORDERED OUTSIDE PURCHASING

One of the areas ripe for overpayments (and duplicate payments as well) is that of goods ordered outside the purchasing umbrella. While it is





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sometimes appropriate for departments to order goods, many professionals recommend that a purchase requisition be filled out at the time of order to notify the accounts payable department of the upcoming bill. Purchasing may then create a purchase order and mark it as “bill only”—no receiver forthcoming. Unfortunately, most people wait until the invoice arrives and then do an after-the-fact purchase order. This is a waste of time and only serves to paper the file, to make the auditors think there are controls in place.

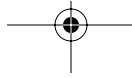
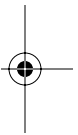
(a) **WHY SHOULD A COMPANY CARE?** For starters, there is a big pricing issue. Most companies negotiate contracts with lower per-item prices to take advantage of the volume of goods purchased. When employees buy something outside of this contract, they usually end up paying more for the item than they would have if purchasing had arranged the transactions. Sure, it may only be a few dollars each time, but those few dollars have a way off adding up real fast.

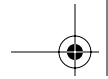
This type of ordering can also circumvent company pricing guidelines. If everything goes through purchasing, information can be accumulated so as to negotiate better vendor pricing.

(b) **HOW CAN A COMPANY STOP THIS ACTIVITY?** Communication and management backing is the key to eliminating this type of behavior. In order to make sure that everyone abides by the ground rules, consequences must be determined, and then be paid, by those who go outside the proper channels. This, of course, is very difficult in the corporate environment; but perhaps a charge could be leveled against the personal bottom line of the executive who is ultimately responsible. Or if a bonus is tied to bottom-line profitability, this might be an effective route. Getting such a policy implemented will be virtually impossible for an accounts payable manager without strong upper management backing. The accounts payable professional can spell out for management the actual effect of the purchases made outside the channel, if executives resist.

1.13 NONPURCHASE ORDER BUYING

There are times, however, when it is appropriate for a party other than the purchasing department to acquire goods or services for the company. The overriding principle in such instances is that there be someone who is ultimately responsible for authorizing and monitoring such expenditures.





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Check requests are the way most companies handle this issue. These requests should, however, be kept to a minimum. If complete coding information is required on the check request, accounting will have the necessary information to include for complete vendor analysis.

1.14 ENCOURAGING OTHERS TO FOLLOW ACCOUNTS PAYABLE'S GUIDELINES

Many accounts payable departments have trouble getting the rest of the company to follow their payment procedures. To help with this, draft an easy reference guide for all standard procedures, to make them not only more user-friendly, but easier to locate. Such a guide can help reduce the enormous amount of time spent educating other professionals in the organization in the proper procedures for disbursements.

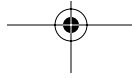
1.15 INVOICES WITHOUT INVOICE NUMBERS

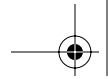
An invoice missing an invoice number often leads to duplicate payments. Many accounts payable professionals, when paying an invoice with no invoice number, simply make one up. While dummifying in an invoice number might make the system work, it does have its pitfalls, especially for those who routinely use the date as their invoice number. A better way to make up a dummy number is to include some unique identifier that references the vendor; for example, a combination of digits from the vendor's phone number and the date. And, when paying an invoice with no invoice number, check to make sure it hasn't already been paid to prevent making duplicate payments.

Companies that are serious about avoiding duplicate payments on the invoices that arrive without invoice numbers incorporate an invoice numbering scheme into their processes. Such a scheme should be uniform and designed to ensure that duplicate invoice numbers are never assigned. Additionally, the scheme should be shared with everyone who might possibly have a need to assign an invoice number.

1.16 INVOICE AMNESTY DAY

One of the dirty little secrets in most accounts payable departments is that invoices with problems tend to disappear. Rather than pretending that this





1.17 Keeping Difficult Invoices from Disappearing 15

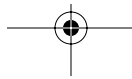
doesn't happen, successful department heads are introducing an "invoice amnesty day," free of finger-pointing and recriminations. Once a year, on invoice amnesty day, each staffer is asked to clean out his or her desk and submit invoices that have been sidelined for whatever reason—no questions asked.

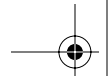
By instituting an invoice amnesty day, you will be surprised at the number of invoices that crawl out from under rocks. Such a move may also improve morale as the hidden invoices often weigh heavily on staffers' minds.

1.17 KEEPING DIFFICULT INVOICES FROM DISAPPEARING

Whenever an organization finds itself inundated with paper, some of it is bound to get lost in the shuffle. This is especially true if that paper requires action to be taken and the appropriate action is not clear. Accounts payable professionals handling difficult invoices fall into this group. Many accounts payable managers complain that invoices have a way of disappearing into never-never land. Some techniques in use today that minimize this problem are:

- *Rotate desk assignments every six months or so.* It helps improve training and backup, prevent fraud, and brings a lot of potential problems to the light of day.
- *Have an invoice amnesty day!* With no questions asked, allow staffers to return all problem invoices to the manager. If there are no repercussions, staffers will feel free to return work they do not know how to handle.
- *Maintain a database of discrepant invoices.* When it becomes apparent that the invoice is discrepant, the processor can create an e-mail to send to the buyer. This serves two purposes: (1) You know what kind of hidden liability you have out there; and (2) it requires purchasing to take ownership of the problem. The processor then files the invoice in a discrepant file until the buyer e-mails back that the invoice is "repaired" and ready for payment. This allows the processor to "transfer" responsibility and keeps the invoices out of the black hole. Processors are also required to register their backlog each week. (Obviously, if the processors do not comply, there will be a problem.)





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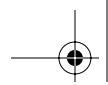
- *Do spring cleaning.* Sad to say, there is no method more effective than cleaning out someone's desk in his or her absence. Although it may be embarrassing at times, doing so nails the point home. Some accounts payable clerks have a penchant for hiding problems and thinking they are resolved by keeping them out of sight. But keep in mind that desks, invoices, credit memos, statements, and related documents are all company property, hence available for review. That said, assign each person one drawer for personal use and *never* go in that drawer.
- *Set up the desks uniformly.* Assign one place for statements, one place for problem invoices, one place for credit memos, and so on. In this way, you can tell at a glance how someone is doing just by looking at his or her desktop. This encourages the clerks to keep current.
- *Check the desks.* This approach is very controversial, as some feel it is an invasion of privacy. One accounts payable professional relayed a humorous anecdote about this issue. "I had an accounts payable clerk (one of my best) tell me that she thought the rummaging of desks was intrusive, demeaning, and totally unnecessary. I eventually promoted her to accounts payable manager. One of the first things she did was inspect the desks once she found out how many items were being hidden." The same clerk also said, "There is no such thing as 'pending items.'" All that means is that nothing is getting done about the problem. Delete the "pending" file.

1.18 USING VENDOR STATEMENTS: THEORY

Vendor statements can be useful tools for accounts payable professionals, if used correctly. Used improperly, they can lead to duplicate payments definitely not a desirable outcome. Given the controversy and interest that surrounds their use in the accounts payable field, a review of best vendor statement practices, as well as commentary from accounts payable professionals who use vendor statements on a regular basis, is in order.

"Never pay from statements" is the mantra in many accounts payable departments, the reason being that statements often contain invoices that have been paid or that have been issued and possibly mailed but not cashed. One variation on the never-pay-from-statements best practice occurs with those vendors that send numerous small-dollar invoices to the





1.19 Using Statements: Reality 17

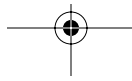
company. Typical examples might include overnight delivery services, messenger services, and so on. In these cases, some companies have decided to pay only from statements. Once a month, or week, or whatever time period is appropriate, the vendor sends a statement and the company pays it. Any invoices received from statement vendors are discarded. Vendors whose payments are based on statements are never paid from an invoice.

The other best practice regarding the use of vendor statements is to periodically request a vendor statement showing all activity. In this manner, the accounts payable professional can identify any outstanding credits. Many suppliers do not list credits on their statements unless specifically requested to include them. And, if companies don't know about a credit, they are unlikely to utilize it.

1.19 USING STATEMENTS: REALITY

Here's a look at how some companies are using statements:

- *To reconcile vendor statements.* This will make you aware of any discrepancies on your account. Sometimes invoices never reach the accounts payable department at all. If you do not have an invoice that is listed on the statement, call and request a copy. Also, the statement will show a credit balance if a duplicate payment is made. Reconciling vendor statements has always been a useful tool.
- *Review statements for any items older than 30 days.* Assume anything fewer than 30 days crossed in the mail. Call for copies of invoices older than 30 days.
- *Use the evaluated receipt settlement, also known as pay-on-receipt.* The staff does not look at any invoices. Instead, target 100 of your largest and/or most strategic suppliers and reconcile these statements on a rotating schedule of 50 per quarter. Also reconcile other suppliers as the need arises. Remember, some suppliers send a "statement" of only the outstanding invoices. No overpayments of cash on account items are listed. Or you can request an "aging" of your account, and this usually lists all open items.
- *Review statements.* Doing so helps maintain a quality relationship and resolving issues.





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As can be seen, reviewing statements is a worthwhile task and can pay big dividends when previously unknown credits surface. Identifying these items is one way that accounts payable can make a positive impact on the bottom line.

1.20 FILING: BATCH VERSUS ALPHA FILING

The need to quickly and easily research invoices, as well as route, pull vouchers with special attachments, and handle remittance stubs, all build off a process that can make or break your department. Ultimately, how you handle the process essentially boils down to whether you want to use a batch or alpha filing system.

Some companies file invoices (with check copies attached) by vendor. This is a timely process that adds little value. Alternatively, if a good tracking system can be incorporated into the accounting system, backup is not filed alphabetically by vendor, but with the batch it was processed with. Then, should the backup be needed, a quick check of the system reveals where the information is filed.

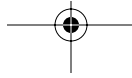
1.21 REDUCING THE NUMBER OF INVOICES

As anyone even remotely involved with the accounts payable function can tell you, payables departments are being inundated with an increasing amount of work. Companies acquire other companies, or simply expand, and the workload grows. Yet in many cases, the accounts payable department is expected to handle additional responsibilities with no extra staff. In fact, at some companies they are expected to handle the increased workload with a smaller staff.

In the doing-more-with-less environment permeating most of corporate America today, accounts payable professionals are adopting a variety of techniques to reduce the number of invoices coming into their departments.

In most organizations, these initiatives are long-term projects and require approval from upper management. So before implementing any of the following initiatives, review your options: First decide which will not only work in your organization, but are most likely to fly; only then begin a campaign to educate and implement.

(a) **SUMMARY STATEMENTS.** Most accounts payable managers are loathe to pay off a statement. They want an invoice that can be used for the





1.21 Reducing the Number of Invoices 19

three-way match. In fact, some wish they could eliminate statements because occasionally they are used, in error, in place of an invoice, resulting in a duplicate payment. However, there are circumstances when paying from a statement makes a lot of sense.

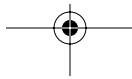
If you do a good deal of business with a given supplier and most of the transactions are small-dollar amounts, you might consider ignoring invoices with that particular vendor. A number of accounts payable managers report that, instead of paying many small invoices from the same vendor each month, they pay once a month from the end-of-month summary statement. This can greatly reduce the number of small, bothersome invoices in the department. It also helps reduce errors, as small invoices are the ones that tend to get paid twice—and are never uncovered.

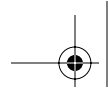
It also makes things easier for the supplier. Instead of getting many small checks from your company during the month, they receive one larger one. And, if you are remitting to a lockbox, the supplier will save banking fees. You might make this point when trying to negotiate such a deal. In addition, if your supplier knows when to expect that single check, it will be better able to predict its cashflow. By pointing out the benefits, you may even be able to get your terms stretched a little!

(b) CORPORATE PROCUREMENT CARDS. Perhaps even more bothersome than many small payments to a few large vendors are many small payments to a wide variety of vendors. Most companies find that over 90 percent of invoices paid represent less than 10 percent of funds disbursed. In growing numbers these companies are turning to corporate procurement cards. Use of these cards will drastically reduce the number of invoices sent to accounts payable for processing.

This application will work with some of the large vendors discussed previously in the summary billing section. If you can get them to accept credit cards, your life will be made quite a bit easier. Only one payment will need to be made to cover payments to a variety of vendors. And, best of all, these payments are typically made at the end of the billing period.

Most accounts payable professionals using these cards report that once the original reluctance to their use is overcome, the cards are embraced wholeheartedly. When management realizes that the strict controls that can be imposed limit their exposure, they are more likely to go along. It is also a positive experience for employees who are empowered to use the cards. As card issuers continue to refine their cards, and solutions are found to some of the accounting issues that cloud this usage in some corporations,





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you can expect use of the cards to skyrocket. (See Chapter 24, “Purchasing Cards,” for more details on this subject.

(c) **EVALUATED RECEIPT SETTLEMENT (ERS).** *Evaluated receipt settlement (ERS)*, also called *invoiceless processing*, is a concept that a few companies swear by and the rest avoid like the plague. ERS requires partnering with your supplier and cooperation from both the purchasing and receiving departments.

The concept is simple: Normally, accounts payable waits for an invoice, matches it to the purchase order and receiving document, and then processes the invoice for payment if everything is in order. With ERS, the accounts payable department simply mails the payment to the vendor at the agreed-upon time if the purchase order and receiving document match. The invoice is never mailed or included in the process.

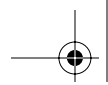
Obviously, this can be done only with vendors that agree to implement this process. It also requires accuracy on the purchase order and in the receiving department. Goods arriving from a vendor must be checked carefully before receiving signs-off, as the receiving document will be the only one received from the vendor. Also, purchasing cannot be sloppy about filling out its purchase orders; the POs must include the payment terms spelled out in detail. If you don't have your house in order, don't even consider implementing this technique. (See Chapter 2, “Alternatives to the Three-Way Match,” for more details on this technique.)

(d) **E-INVOICING.** In growing numbers, companies are turning to electronic invoicing, sometimes called *e-invoicing* or *Web invoicing*. This process removes paper from the accounts payable department; improves accuracy in the process, as human rekeying is eliminated from the process; and allows for tracking of the paper through out the chain. Thus, these invoices tend to be approved more quickly and paid on time. As a side benefit, e-invoicing helps companies qualify for a greater number of early payment discounts.

(e) **IMAGING AND WORKFLOW.** Thanks to falling prices, companies that just a few years ago found imaging too expensive are now reevaluating it. This is not to say that this technology is cheap, but that it is now more affordable for certain organizations.

Those companies that have been most successful with imaging use it to scan an invoice into their system the minute it enters their door. The





1.22 Handling Bills with Remittance Advices 21

original paper document is never touched by human hands again. The imaging system indexes the information, allowing for easy document retrieval at a later date.

The necessary information is taken from the invoice electronically. This drastically reduces rekeying errors. The document can then be passed around the organization as needed, and can be accessed by different individuals and departments. Copying costs are eliminated and storage costs greatly reduced.

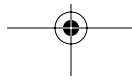
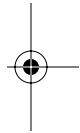
The conversion to an imaging system can, however, be time-consuming. But it can also prove a valuable expenditure of time, as many take this opportunity to review their current workflow processes and eliminate unnecessary steps. Employees will have to be retrained to use the new machines, and some may be resistant to the changes. But once the system is up and running, most are pleased with the results.

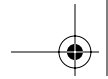
The accounts payable world is, as is the rest of the business community, changing quickly. It is no longer cost-effective to do things the way they have been since time immemorial. Anything that reduces the ever-growing volume of paper crossing accounts payable managers' desks is welcome. The techniques just discussed are a few of those sweeping accounts payable departments.

1.22 HANDLING BILLS WITH REMITTANCE ADVICES

Bills for services such as telephone and utilities often require that a stub be sent, along with the check, so the receiving company can apply the payment correctly. This is something that most accounts payable professionals do as a matter of course when paying their personal bills. However, it can be a major time-waster when paying such bills for a company. Many companies have found solutions to this annoying problem, some of which may work in your organization. They include:

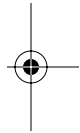
- Eliminate the process of sending payment stubs with your utility and telephone bills. Reference the account number and the invoice number with the invoice date.
- Contact the utility company and ask for a consolidated statement of all accounts. Cut one check for all accounts and return the stubs to the utility. This does not completely eliminate the problem, but it does limit the extent of the damages.





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- Use a subscription service. This technique works well for those organizations that have many subscriptions.
- Pay electronically. Some companies are starting to use automated clearinghouse (ACH) debits for this process.



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