

IT'S NOT ROCKET SCIENCE:

Eight Little Mistakes that Make Your Accounts
Payable Function Costly and Inefficient

- Accounts payable is definitely function laden with details. Get one of those small particulars wrong and the impact will be immediate. The organization's profitability will start to silently erode. Alas, tracing the financial implications of those errors is almost impossible so many organizations continually make the same mistakes over and over again – constantly eating into their bottom line. This is regrettable as many of these blunders are very easy to fix. Once the problem has been identified, the solutions are obvious. Let's take a look at some of the more common ones.

The Big Eight

1. NOT DEVELOPING A RIGID CODING STANDARD for invoice entry and insisting processors use it. This seems like a minor issue but it is anything but. Those organizations that take this tactic seriously have eliminated well over 95% of all duplicate payments. Coding standards should address every possible aspect of information included on an invoice. Standards then need to be set for each of those items. For example, you need to address how abbreviations will be entered. Will you enter IBM, I B M, or I.B.M. Computers recognize each of these items differently. Along the same lines, decide whether you will include leading articles (i.e. The Gap or Gap), what abbreviations, if any, to use and whether or not to include punctuation (Anybill, Inc. or Anybill Inc.). Don't overlook abbreviations associated with addresses. Most organizations align their use of abbreviations with the standards used by the US Post Office.

2. NOT FOCUSING ON THE INVOICE NUMBER. While most processors are very careful when entering data from an invoice when it relates to quantity, price and even vendor name, that attention to detail is not there when the invoice number is entered. This is unfortunate because many of the duplicate payment checking routines rely on the invoice number. The nifty feature of checking invoice numbers is worthless if

processors don't pay attention to the invoice number or worse, fudge it when their system shows the invoice number is a duplicate.

3. NOT GETTING 100% POLICY COMPLIANCE on Travel & Entertainment (T&E) reimbursements. This hurts in two ways although most executives only focus on the first. As you might imagine, when people are not conforming to the policy, it is not because they are spending less money than prescribed in the policy but more. The financial impact of that is relatively easy to calculate. The second effect occurs when other employees find out about the excess expenditures. These matters never remain confidential, despite what management would like to believe. Morale is affected when employees find out that a special few were allowed expenditures not permitted to everyone else. What's more, when this occurs a few employees will be tempted to push the envelope reasoning that they are just as entitled as the privileged group. Their excess spending further reduces organizational profitability.

4. PROMOTE FROM WITHIN WITHOUT REMOVING SYSTEM ACCESS associated with previous position. While we are great believers in promoting from within, it needs to be done properly. When promoting internal candidates many organizations neglect to cut off the system access associated with the former position. This can negate the appropriate segregation of duties effectively weakening internal controls. Hardworking employees who have worked in an organization for many years and have been promoted numerous times can end up with access to many parts of the accounting system. While we advocate promoting current employees, it is recommended that it be done properly. Most accounting systems will allow you to run a report showing who has access to which functions. This report should be run and reviewed at least annually to make sure there are no surprises lurking in the corners of the organization.

5. RETURNING CHECKS TO REQUISITIONERS. Inevitably, even though most managers and executives know that checks should never be returned to the person who requested them, many still do. For starters, the process of returning checks makes for a less efficient accounts payable department. While that is rarely enough to convince management to ban the practice of returning checks, there are other compelling reasons to end this practice. For starters, these checks are frequently lost. Sometimes an admin picks up the check, puts it on the executive's desk and it is quickly covered with papers. Other times it's the executive him/herself who picks up the check and forgets they have it. Eventually a second check is issued and unfortunately, when the first check is found it is also sent to the vendor. While we'd like to report that most vendors return duplicate payments, that is simply not the case. Only a small percentage are ever returned without research and prompting by a third party. And finally, there is the issue of fraud. While no one likes to think that an employee would steal from them, a few workers will do just that. Requesting checks be returned to them is one easy way to pull off the fraud.

6. NEVER CLEANSING THE MASTER VENDOR FILE and deactivating inactive vendors. Reviewing data in the master vendor file is really not a fun job. Hence, while just about every professional involved in the payment world knows it should be done, not every organization does it or does it as frequently as it should. In fact, a large number have never done it while others often push it to off when other more pressing matters

come up. Not deactivating inactive vendors can lead to duplicate payments and make it easier for employees intent on defrauding the organization to execute their chicanery. Not addressing this housekeeping matter makes the master vendor file bulky and therefore it will be more tedious than need be when you attempt to update contact information.

7. NOT TRACKING RECEIPT OF W-9S. Most organizations do make an attempt to collect the necessary taxpayer identification number information from their vendors so they can issue 1099s in January as required by law. Unfortunately, this attempt is often half-hearted. A W-9 is sent to every vendor when the relationship commences and then everyone hopes the W-9s are returned. Alas, as you know if you've been involved in this process, many are not. This means that not all the 1099s that should be issued are issued. This could be especially troublesome if the IRS comes in for an audit.

8. NOT REGULARLY REVIEWING UNAPPLIED PAYMENTS. From time to time, most accounts payable departments will receive requests for Rush payments without any backup. Often the backup is promised at a later date but never materializes. These unapplied payments often become duplicate payments when the original invoice finally wanders into accounts payable, often approved by the very executive demanding that original Rush payment. Since there was no identifying information about the original payment, the invoice will be processed and paid.

Impact of Automation

As you read through the items above, it might have occurred to you that many of these problems could be eliminated by:

- 1) Having strict policies and procedures and mandating that everyone adhere to them; and
- 2) Automation.

The beauty of automation is it removes the human component from the equation. There is no opportunity for a simple keying error, checking is done by computers that don't miss a trick, and there are no delays. Invoices can't sit on someone's desk indefinitely with no one the wiser when there is an electronic audit trail and automatic escalations. Rush checks, returning checks to requisitioners, lack of policy compliance, and keying errors just don't happen. The problems discussed here should be yesterday's issues, not matters that you continue to spend time addressing. Reengineer your processes and then automate where you can and the result will be a cost effective, more-efficient, fraud-resistant payment process.

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About Anybill

Since 2001, Anybill has automated accounts payable for small- to medium-enterprises (SME) as well as some of the world's largest corporations and institutions. Because accounts payable—in all its iterations, including tax payments—is all we do, we're able to provide innovative and effective software that's wed to superior customer service. We are headquartered in Washington, D.C., are SSAE 16 compliant, and maintain strategic relationships with regional and national CPA firms such as RAFFA, BDO Seidman, KPMG and Ernst & Young.