SEEKING BEST PRACTICES IN ACCOUNTS PAYABLE

BOTH PUBLIC AND PRIVATE COMPANIES CAN BENEFIT FROM THESE LESSONS.

BY JANI KASKINEN

Here it is almost five years after the Sarbanes-Oxley Act (SOX) was passed, and the feedback is still mixed. Several surveys have shown how it has made some companies more efficient, yet complaints about the excessive costs of compliance are rampant. And achieving compliance is quite a challenge, especially since SOX doesn't provide a road map on how to get there.

But SOX has provided some benefits. It has forced companies to improve corporate governance, provide enhanced accountability and transparency, find and reduce waste, and eliminate opportunities for fraud. At the same time, however, many companies have experienced the downside of SOX: time-consuming, demanding, and costly processes.

Now it's time to step back and assess the lessons learned. Best practices have emerged in SOX compliance, but until now there has been little focus on the accounts payable (AP) area in general and invoice processing in particular. By recognizing lessons learned in AP and applying best practices, companies can improve their ability to be compliant, benefit from improved processes, and minimize costs. Let's look at some of the valuable lessons learned.

LESSON 1: POLICIES WITHOUT CONTROLS WON'T WORK

One of the critical lessons many of us have learned about compliance is that policies and procedures aren't enough. Despite all the efforts companies have undertaken over the past few years to establish stringent financial policies, many still lack effective ways to document and enforce internal controls.

Accounts payable is a critical area for SOX compliance because that's where financial commitments are made and outbound cash flow is regulated. Companies can't manage their cash flow and spending effectively unless they have real-time access to this information. This is critical for all companies regardless of the number of invoices they process per year. Obviously this issue becomes more critical as spending and the number of invoices processed per year increase. Companies must be able to know where invoices are within the process, how many invoices are being processed, and their total liabilities.

It isn't enough to have internal policies without the internal controls in place to ensure that the rules are being implemented properly. For example, you need to have a way of ensuring that only employees with the proper level of approval are in fact approving invoices. You need to be able to record every invoice that comes in, know where any particular invoice is at any given time, know who touched each invoice, and know what actions have been taken.

A large, decentralized company that receives invoices in separate locations has little control over this process. If someone is away or doesn't submit invoices in a timely manner, the invoices can be sitting on a desk without anyone else knowing. It then becomes difficult, if not impossible, for headquarters to know how much money it needs to set aside for payments. The company also misses out on another bottom-line benefit: the ability to negotiate early-payment discounts as well as avoid late penalties. In the case of fraud, someone could submit invoices to separate divisions for the same work. The company has lost control of and visibility into the process, and cash flow and spend management have been compromised.

Invoices without purchase orders (POs) pose additional problems that only increase as their volume grows. For example, companies that process 25,000–30,000 invoices per month and hundreds of thousands of invoices per year could have a staggering number of non-PO-based invoices. If they aren't routed to Accounts Payable in a timely manner—within 30 days—the company can't accurately report expenses, which could be a huge problem at the end of the quarter. Taken to the extreme, a large number of unrecorded liabilities could force a company to restate earnings and impact its credibility.

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LESSON 2: POLICIES COMBINED WITH TECHNOLOGY = RULES + ENFORCEMENT

Technology is recognized as a critical component in achieving SOX compliance, and companies can leverage it to effectively enforce the policies they have established. For example, an automated invoice processing system won't allow anyone without the proper approvals to approve an invoice. The system will capture each invoice as soon as it is received—including those without purchase orders—and time stamp each action that occurs. It will create an audit trail that enables companies to have visibility and control over the entire invoicing process.

Technology also enables companies to conduct accurate reporting in a fraction of the time it takes with manual methods. You can look at invoice processing data in any number of ways, such as viewing cost codes, outstanding payments that need to be made, time from processing to payment, and the individuals who processed invoices. When it comes to audits, you no longer have to search through files to find a specific invoice because all the information is available at a moment's notice, and audits that used to take weeks can now be completed within days. Technology also enables companies to improve their working capital management abilities. Cash management can now be done more proactively since all the information is centrally available, whereas manual recordkeeping didn't enable such exact analysis since it was impossible to track and factor in all unrecorded liabilities.

Some sophisticated companies implement Shared Service Centers (SSCs), centralized hubs for handling administrative, financial, and other services across the entire organization. An Accounts Payable SSC enables companies to streamline costs and, more importantly, to implement best practices across the enterprise. It provides centralized control, consistency, and visibility across a large, dispersed organization.

When it comes to doing business globally, SOX compliance becomes a more difficult issue. A company needs to ensure that all of its subsidiaries are implementing controls and processes in the same way. It also needs to have real-time visibility into the system, regardless of the multitude of languages and currencies involved. Large global companies are benefiting from SSCs by centralizing and implementing best practices throughout the company, making processes consistent and visibility immediate.

LESSON 3: FIND WAYS TO REDUCE COSTS

In the past few years, efficiency and cost effectiveness took a back seat while companies scrambled to establish policies and systems to ensure compliance. Now it's time for organizations to look for ways they can save time and money so they can improve their bottom line.

Manual invoice processing is an extremely time-consuming and, therefore, costly process that involves:

- Checking invoices against the purchase orders;
- Making sure that the price, quantity, and goods match the PO and that all the information on the invoice is correct;
- Determining the proper approver and routing the invoice to that person;
- Tracking the invoice to ensure that it comes back in a timely manner;
- Inputting, coding, and reviewing the invoice when

entering it into the accounting system;
- Coding it again to the right cost center, etc.

Automating the process greatly reduces the time it takes to process an invoice, typically from many weeks or months to a matter of days. Once an invoice is available electronically (it is either received that way or scanned in), the technology can automatically match it against the order and route it for payment or route it to the appropriate person and then send it to the AP department for processing. Technology also automates the processing of periodic or contract-based purchase invoices. Typically, the approval workflow and posting data of these recurring invoices are identical, so it's ideal to automate them. The system matches the invoice with the contract and transfers matched invoices directly to Accounts Payable. If the invoice doesn't match, the system sends it to a predesignated person for approval.

When the technology is fully implemented and the appropriate business rules are followed, many invoices no longer require human intervention. Since the workflow is automated and the bulk of the invoices are handled by the system, the AP department is now just dealing with exceptions, which frees up their time to be more strategic.

A study by the Aberdeen Group, an industry research firm, found that many organizations realized 40% to 60% savings by implementing an appropriate invoice automation solution. They achieved a return on investment (ROI) in a matter of months in many cases, which meant the system paid for itself in a very quick time frame.

On top of these efficiencies, an automated system will enable companies to have more control of and visibility into their invoices, as well as save money by obtaining vendor discounts and avoiding late-payment penalties. Also, by gaining control of the spending process, companies can improve their supplier relationships and quite possibly the terms of their agreements with suppliers.

In addition to cost savings, an automated system provides controls for financial accuracy and helps to prevent fraud. For example, it will uncover discrepancies between a PO and invoice, and it will identify duplicate payments or invoices coded with incorrect cost centers and ensure that only those people who are allowed to authorize invoices do so.

LESSON 4: FIND WAYS TO IMPROVE PROCESSES

Implementing a technology solution provides an additional benefit by enabling companies to review and streamline current processes. AP departments should look at how they are currently handling invoice processing. Consider the following areas:

- **Capture:** How is the information getting into the system? How can you avoid manual entry? How are you getting the data you need out of ERP systems?
- **Processing:** How many people need to look at an invoice? How is it being coded? How are you handling the routing so the invoice only gets to the appropriate approvers? How are you building in a way to ensure that the invoices get routed and processed in a timely fashion?
- **Reporting:** What type of reports do you need? How can you enable the reports to address these needs? How can you make reporting easy and fast?

It makes no sense to automate a broken process. After you evaluate your current methods, determine what processes need to change to enforce your policies more effectively. Consider how you can streamline these processes to reduce time and costs and achieve better results. Then you can think about automation.

LESSON 5: IMPLEMENT KEY PERFORMANCE INDICATORS TO ATTAIN CONTINUAL IMPROVEMENT

SOX regulations require that companies demonstrate continual improvement, but they must figure out how to accomplish this. In order to accurately determine and implement improvements, they must first put a system of measurement in place. One effective approach is to determine the key performance indicators (KPIs) for the purchase-to-pay (P2P) processes. The AP department should select the indicators that they want to assess based on their business goals. For example, a company might want to measure the cost of processing an invoice, the interval between when an invoice is received and when it is processed, etc. Once these criteria are determined and measured against current practices, the company should then reevaluate these measures after implementing a technology solution. They should measure the improvements achieved over the previous system and against industry benchmarks. This will enable companies to continually monitor and adjust the improvements they are making to their processes and weigh these improvements against the effort it takes to implement them.

LESSON 6: ENSURE THE SYSTEM HAS FLEXIBILITY BEYOND SOX

In addition to SOX, there are other U.S. regulations that companies need to follow, such as the Patriot Act, Health Insurance Portability and Accountability Act (HIPAA), Gramm-Leach-Bliley Act (GLBA), and Federal Information Systems Management Act (FISMA), as well as standards such as Payment Card Industry Data Security Standard (PCI DSS), Control Objectives for Information Technology (CobiT), and Committee of Sponsoring Organizations of the Treadway Commission (COSO) guidelines. There are also many other country-specific regulations companies have to contend with when doing business overseas, such as Basel II.

Look for efficiencies. Make sure that the time, effort, and cost you are investing to achieve SOX compliance will also accommodate other compliance needs. When implementing an automated Accounts Payable system, for example, make sure that it provides effective controls and visibility as well as the flexibility to adapt to and address any other required regulations.

LESSON 7: MAKE ACCOUNTS PAYABLE MORE STRATEGIC

Accounts Payable departments are always looking for ways to provide added business value by becoming less transactional and more strategic. An automated invoice processing system will help them accomplish this by streamlining processes and providing efficiencies. Since the system's technology will process the majority of an organization's invoices, AP staff will primarily handle exceptions and will have time to focus on the more strategic aspects of AP, such as analyzing data and generating dynamic reports from the system to provide line-of-business management with up-to-date key information in such areas as spend analysis and cash flow management. This critical, real-time access to business information will help run the business more profitably. As I mentioned earlier, AP management can also manage payments more strategically, evaluating payment schedules based on the penalties and discounts attached to them. For example, a discount for early payment for one invoice might be much greater than the penalty that the company would incur for paying another one late. A strategic AP department will be able to manage the priority and timing of invoice payments based on late-payment penalties or early-payment discounts.

LESSON 8: INTEGRATION IS KEY

Companies have invested tremendous time and money in their ERP systems, so it's imperative that any financial system introduced into a company can integrate easily and seamlessly with existing ERP and accounting systems. For example, information needs to flow quickly and smoothly to and from an invoice processing solution and back-end ERP system. This ensures that information is consistent throughout the financial processes and enables accurate reporting.

Despite having internal controls on paper, many companies lack ways to ensure that these controls are being followed. Best practices in terms of policies and technology will work synergistically in the area of compliance—with technology providing the necessary control to enforce the procedures that have been established. In addition to control, automated solutions provide increased accuracy, visibility, and timely financial reporting capabilities that are required for SOX compliance.

With automation, companies can achieve more in their AP departments and benefit from competitive advantages. Working toward compliance is no longer enough. Companies now must apply the lessons learned and strive for best practices. Forward-thinking companies are using SOX compliance to their advantage—improving processes, achieving greater cost savings, and elevating AP to a more strategic level. ■

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