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ACCOUNTS PAYABLE NOW & TOMORROW

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Do You Know Where Your Invoices Are?

by Chris Levush, controller, expensewatch.com

It happens every time.

It's the last day of the month. Accounting wants all the payables in by noon. There is a Fed-Ex package on your desk containing a stack of invoices. You have no idea what they are for or why they were authorized. To top it off, there are no purchase orders (POs) in the file to tell you whether these invoices are correct or who approved the purchases.

Three calls later, and a dip into the files, and you are no closer to finding the missing paperwork. You dash off an unpleasant e-mail to the offending manager, but think twice about it. It looks like you're going to miss the deadline yet again.

The answer isn't more calls and memos to managers who make unapproved purchases. It's about identifying what causes these bottlenecks in your processes and deploying systems to eliminate them before they occur.

The Month-End Crunch

The end-of-month crunch is inevitable. Despite everyone's best intentions, late or misrouted invoices, confusion over approvals, missing paperwork, and last minute requests always seem to delay the process. Accounting can't start closing out the month, managers get testy waiting for essential bills to be paid and accounts payable (AP) has no way to verify that what is being invoiced is correct.

Audits and Tax Time

Audits and tax time are also demanding times. It's not uncommon to spend weeks preparing files, compiling reports, and assisting accountants. In small firms this can strain already lean staffs and steal valuable resources from other projects.

The problem gets worse when POs and invoices are missing. Auditors have difficulty checking spending against AP and reviewing tax accruals. This delays the process and requires more time in the files and on the phone chasing down paperwork.

What Causes The Crunch?

In addition to those listed above, some of the most common contributors are:

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- Invoices submitted without adequate documentation, requiring "detective work" and re-submitting for approval.
- A PO is delayed because AP does not know if the requestor has authority to approve the expense. Hours or days can be wasted verifying signature authority.
- A purchase is made without a PO when a manager has a pre-existing relationship with a vendor or in an emergency.

However, the biggest contributors to the month-end crunch are the paper-based systems used to track, control, and verify expenses. These methods are often too inefficient to handle the load.

The impact on a business can be serious. Cumbersome expense management systems make it time consuming and expensive to process invoices. They also make it difficult to optimize vendor discounts and hard to maintain regulatory compliance. Labor-intensive systems can also contribute to crunches and delay the reporting of important financial information to accounting, management, investors, and regulators.

The Tipping Points for Automation

These inefficiencies and a lack of financial controls are all driving the trend toward financial automation. Here are the major automation "tipping points":

- "Manual" Processes. A driver for automation is the need to replace manual systems costly in terms of audit losses, overpayments, and fraud. A recent survey by PayStream Advisors indicates that more than 68 percent of companies rank reducing processing costs as a major benefit of automation. (Source: Paystream Advisors 2006 Financial Automation Survey).

- Decision Support and Compliance. Companies also automate to empower managers to make more educated purchasing decisions, enforce company-spending policy, and improve compliance with regulations, such as Sarbanes-Oxley requirements.

Automation Provides Control

Automated expense control systems address these issues in a number of ways. First, they aggregate all of the relevant purchase information in one place. By incorporating all the transactions including the purchase request, PO, and packing list, they let you verify invoices without having to become a paper-chaser. This saves staff time and cuts transactional costs.

The system should also build spending policies into the system and provide an easily verifiable approval chain. That way, if there is a questionable invoice, it can be easily re-routed for approvals. The system

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should also have a built-in final review process so that last-minute changes are properly incorporated, errors caught, and allocations can be made. Finally, the system should easily integrate with the firm's accounting system so there is no additional data entry required.

Looking at the Big Picture

All accounts payable departments deal with logjams. While predictable, they are typically unavoidable.

Automation offers the real prospect of eliminating the logjams and making crunch periods easier. They can also help reduce costs, manage vendor discounts, and ensure the timely flow of information to accounting. More importantly, they can free A/P from the detective role and let personnel focus on important business analysis.

Until relatively recently, however, automated expense control systems were only available through client-server-based software. Due to the time, cost, and complexity to implement, these systems were only affordable for the largest of organizations.

More recently, many small-to-mid-sized businesses (SMBs) have been turning to on-demand, software-as-a-service technology to automate expense control processes. These Web-based services provide automation at a lower cost, time, and risk than traditional, client-server-based systems. SMBs stand to gain the most from these systems, as they require less investment of scarce resources.

Ultimately, it's more than just reducing paper. It's about deploying systems that allow organizations to control and reduce operating expenses, while helping businesses to be more profitable and compliant. **AP N&T**