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REGULATORY & TAX

Sales & Use Tax: Beware the Risks of Noncompliance

By Diane Yetter

If your state offers an amnesty program for sales and use tax, take it! The penalties may skyrocket after the amnesty program ends.

Many companies, especially when they aren't retailers, underestimate their responsibility to pay sales and use tax—at their peril. State governments are hungry, and they are looking for more sources of income. Many have begun to tax services and digital goods—not just tangible products—and they are

CONTINUED ON PAGE 5

BENCHMARKS AND METRICS

DPO Measures the Efficient Use of Working Capital

Days payables outstanding (DPO) is a measurement that many executives, auditors, and consultants use to measure the efficiency of accounts payable departments. It is an important metric used in measuring the efficient use of working capital. While AP isn't solely responsible for this number, a well-run AP department maximizes its contribution to DPO by every means possible.

What Is DPO?

In the parlance of financial ratios, DPO is classified as an activity ratio. Simply

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AUTOMATION & TECHNOLOGY

Reduce Costs, Head Count, and Cycle Time with Automation

If you want to lower costs, reduce head count, and trim your cycle time, you should be looking at automation.

But before implementing an automation project, says Jon Casher, president, Casher Associates Inc. and senior consultant, IOMA/IOFM Advisory Services, you need to spend some time documenting exactly what happens to

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Also in This Issue

Frequently Discounted Services

.... see page 2

	Discount Frequency
Positive Pay Checks Paid	68.9%
Controlled Disbursement Checks Paid	67.3%
Account Maintenance	65.8%
Controlled Disbursement Maintenance	65.2%
Credit Posting	64.5%
Automated Repetitive Wire	62.7%
Deposit Reconciliation Maintenance	62.2%
Checks Paid	61.4%
ACH Credit Originated	61.1%
Previous Day Reporting Transaction	60.3%

(Source: Phoenix Hecht)

BANKING

What Are You Paying in Service Fees?

With all the transactions that AP generates during the average year, bank charges can really add up. But there are ways to lower those costs.

Many banks discount their charges, so it's good to shop around for discounts. In their *Blue Book of Bank Prices 2010-2011*, Phoenix-Hecht looks at both the highest- and lowest-priced services—to see how costs are trending.

Exhibit 1. Deeply Discounted Services

	Median Discount Percentage
Check Image Item Retrieval	60.0%
Deposit Reconciliation Item	58.3%
ACH Debit Block-Filter Maintenance	55.8%
Return Item Redeposit	55.6%
ACH Return Item	53.5%
Intraday Reporting Transaction	52.0%
Retail Lockbox Maintenance	51.4%
Credit Posting	50.7%
Remote Deposit Capture Per Deposit	50.0%
Return Item	50.0%
Controlled Disbursement Notification	50.0%
Positive Pay Exception	50.0%
Check Image Retrieval Maintenance	50.0%
Account Recon Input Trans Per Trans	50.0%
Account Recon Output Transmission Item	50.0%
ACH Maintenance	50.0%

(Source: Phoenix Hecht)

What Charges Are Banks Most Likely to Discount?

The latest metrics on bank charges reveal which fees and services banks most frequently mark down.

Of the three most discounted services, positive pay tops the list, with a discount frequency of 68.9 percent. This means that the charge is reduced in nearly seven out of 10 cases (see front page box).

When you look at these data, keep in mind that the *Blue Book* considers "tiered pricing" to be a discount. Tiered pricing is based on the volume of transactions processed.

Deeply Discounted Services

Twenty services achieved a median discount percentage of at least 50 percent ("deeply discounted"). Eight exceeded a median discount of "half-off." From this list, it is evident that ACH services are prone to substantial discounts (see Exhibit 1).

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More Detail on ACH Charges

Exhibit 2 contains additional detail on ACH prices and discounts. Notice the average list prices of ACH transactions. Many companies have shifted the initiation of ACH transactions to the Internet. Typically, this is simply just another Web-based corporate banking service, but it's much more convenient—and the maintenance costs are lower. As the table shows, the average list price for this Internet capability is $42.90 versus $54.33 for bank-based ACH maintenance fees.

More Price Benchmarks

Exhibit 3 contains average list prices and discount frequency for some other selected bank services.

Note that several account reconciliation services show up on this list. The per-item charge and the maintenance fee for full reconciliation services have discount frequencies of 52.5 percent and 58.2 percent, respectively. The maintenance fee for partial reconciliation has a discount frequency of 51.3 percent.

Account reconciliation services shorten or eliminate the time-consuming chore of balancing the company's checking account. With partial reconciliation, the bank creates a numerically ordered file that presents a list of checks paid against an account. This file can be uploaded into your AP system to speed reconciliation.

With full reconciliation, the bank compares a list of checks paid against a list of checks outstanding, which you supply. The resulting information, which you can also upload into your system, simplifies the search for outstanding checks and accelerates the resolution of disparities between the bank statement and the general ledger.

Notice in Exhibit 3 that the absolute difference between prices for full and partial reconciliation is only about $16 per month. Plus, there is hardly any difference in the

Exhibit 2. ACH Services Price Summary

Service Name	Average List Price	Average List Price Increase	Discount Frequency	Discount Percentage
ACH Maintenance	$54.33	0.3%	52.0%	50.0%
Internet ACH General Maintenance	$42.90	0.0%	35.7%	30.0%
ACH Credit Originated	$0.12	0.1%	61.1%	46.7%
ACH Debit Originated	$0.12	0.1%	59.0%	50.0%
ACH Originated Addenda Records	$0.03	4.8%	24.2%	50.0%
ACH Credit Internet Originated	$0.23	6.3%	40.9%	49.7%
ACH Debit Internet Originated	$0.23	6.3%	38.1%	50.0%
ACH Credit Received	$0.34	3.9%	47.4%	40.0%
ACH Debit Received	$0.24	1.9%	45.5%	40.0%
ACH Received Addenda Records	$0.03	16.7%	31.5%	25.0%
ACH Return Item	$4.27	0.0%	45.8%	53.5%
ACH Notification of Change	$3.68	7.3%	48.9%	48.4%
ACH Reversal Item	$20.64	0.0%	34.6%	50.0%
ACH Positive Pay Maintenance	$29.00	n/a	34.0%	44.1%
ACH Debit Block-Filter Maintenance	$23.87	3.1%	49.6%	55.8%
ACH Tax Payment	$4.55	10.0%	36.6%	35.5%

(Source: Phoenix Hecht)

price for items processed under both levels of service. This suggests that AP managers should use full reconciliation since it is a better service at roughly the same price.❑

Sources: Blue Book of Bank Prices 2009-2010, *and* The Great Recession Changes Bank Relationships and Pricing, *Phoenix-Hecht.*

Exhibit 3. Other Services Price Summary

Service Name	Average List Price	Average List Price Increase	Discount Frequency	Discount Percentage
Account Maintenance	$32.80	4.9%	65.8%	44.0%
ZBA Master Account	$40.00	3.2%	46.7%	37.5%
ZBA Sub Account	$24.46	0.0%	54.1%	40.0%
ZBA Transfer	$0.83	n/a	30.9%	31.6%
Credit Posting	$1.05	10.0%	64.5%	50.7%
Deposit	$1.29	2.8%	46.9%	45.0%
Checks Deposited - On Us	$0.09	-0.7%	51.4%	36.4%
Checks Deposited - Transit	$0.15	0.0%	53.0%	22.2%
Image Clearings - On Us	$0.05	0.0%	21.8%	42.1%
Image Clearings - Transit	$0.07	3.4%	32.1%	11.2%
IRD Clearings	$0.09	0.0%	28.4%	16.7%
Remote Deposit Capture Maintenance	$58.42	6.3%	29.4%	35.4%
Remote Deposit Capture Per Deposit	$0.83	0.0%	28.3%	50.0%
Remote Deposit Capture Per Item	$0.12	0.0%	26.0%	33.3%
Return Item	$7.58	0.0%	57.9%	50.0%
Return Item Redeposit	$5.16	0.0%	54.5%	55.6%
Debit Posting	$0.47	0.0%	42.6%	39.0%
Checks Paid	$0.20	8.7%	61.4%	36.0%
Controlled Disbursement Maintenance	$121.15	0.0%	65.2%	46.7%
Controlled Disbursement Checks Paid	$0.19	1.2%	67.3%	43.8%
Controlled Disbursement Notification	$81.67	0.0%	46.3%	50.0%
Positive Pay Maintenance	$86.25	0.0%	59.8%	46.9%
Positive Pay Checks Paid	$0.19	0.7%	68.9%	35.0%
Positive Pay Exception	$3.59	n/a	28.3%	50.0%
Check Image Maintenance	$34.81	2.6%	44.7%	42.9%
Check Image Capture	$0.05	1.6%	44.7%	49.4%
Check Image Retrieval Maintenance	$20.00	n/a	15.1%	50.0%
Check Image Item Retrieval	$1.80	n/a	21.1%	60.0%
Automated Stop Payment	$11.32	0.8%	47.3%	33.7%
Manual Stop Payment	$32.38	2.3%	40.0%	36.7%
Partial Reconciliation Maintenance	$60.00	2.2%	51.3%	33.3%
Partial Reconciliation Item	$0.06	2.9%	54.7%	35.5%
Full Reconciliation Maintenance	$76.25	1.1%	58.2%	33.3%
Full Reconciliation Item	$0.07	1.8%	52.5%	36.4%
Account Recon Input Transmission Per Transmission	$12.40	0.0%	32.2%	50.0%
Account Recon Input Transmission Item	$0.03	16.7%	42.0%	33.3%
Account Recon Output Transmission Per Transmission	$15.29	2.9%	27.9%	48.3%
Account Recon Output Transmission Item	$0.02	0.0%	31.4%	50.0%
Incoming Wire	$10.39	1.1%	57.9%	33.3%
Automated Non-repetitive Wire	$9.99	3.4%	55.8%	27.3%

(Source: Phoenix Hecht)

Sales & Use Tax

CONTINUED FROM PAGE 1

getting savvier at tracking down companies that ignore taxes for online purchases.

Every business has a sales and use tax obligation, even if it doesn't make taxable sales. I can't think of any company, regardless of size, that hasn't bought something taxable.

Responsibility for Remitting Falls on the Purchaser

Historically, purchases may have included sales tax as charged by the vendor. However, many purchases today are made from vendors that don't charge tax because they are not required to under state law. But that doesn't mean the items are exempt from tax. Rather, the responsibility for remitting use tax falls on the purchaser. There is a great misconception that if the purchase occurred online that there is no tax.

Your Company Must Be Registered to File and Remit Use Taxes

If your company isn't registered to file and remit use taxes, you are out of compliance. Many companies have taken the position of avoidance—thinking the state won't come after them because they are too small or that if they are caught they will just pay the tax then. Why pay now what may never be found later?

That philosophy is becoming more costly as states increase their technology investments, allowing them to find more unregistered taxpayers. They are also pressuring unregistered sellers to report and provide contact information for customers so that the state can assess them directly.

Colorado took the most aggressive approach on remote taxpayers, requiring them to issue the equivalent of a sales tax "1099" and include specific language on their invoices. This has been challenged in court and is currently being litigated. Other states have taken different approaches to acquiring sales and use tax information from sellers. Many states even have arrangements with the U.S. Customs and Border Protection agency to receive import records.

Amnesty Programs Are Offered by Some States

Last year, 13 states offered amnesty programs to allow companies that were not registered and had prior period liabilities to come forward and get in compliance.

Seven states have programs already announced for 2011. In some cases, all penalties and interest are waived for companies filing under the programs. In others, forgiveness of tax is being offered.

Once the amnesty period has passed, states then initiate aggressive measures to identify noncompliant companies, and many of them are authorized to assess additional post-amnesty penalties and interest. For example, Illinois will assess double penalty and double interest for any liability discovered under audit that was not disclosed under amnesty.

This can significantly increase the costs of noncompliance. Companies should monitor amnesty opportunities and evaluate whether any tax is due—whether they are registered or not. A chart detailing amnesty programs can be found at www.salestaxinstitute.com/resources/sales-tax-amnesty.

Coming in future issues of *Managing Accounts Payable:*

- **Outsourcing: Getting Rid of the Things That Cause You the Most Pain:** When you get seven boxes of paper from AT&T, how do you know what's there? How do you know if it's right? How do you manage it all? Maybe it's time to think about outsourcing. But first consider which project provides the highest value in return for the resources required.

Once you are registered, you are required to timely file and pay the taxes due. Not only do you need to know when you need to file the return by (states vary between the 15th and end of month generally), but you also need to keep track of the requirements to file and pay electronically.

As states have improved their ability to receive and process returns and payments electronically, they are lowering thresholds for companies required to file using these automated methods. Failure to do so when required results in additional penalties.

Due dates are often a day earlier for electronic filers, so be aware of those changes. Some states like Florida actually have a time of the day when the electronic returns and payment are due—and that is Eastern Standard Time!

States Have Not Reduced Interest Rates

Although the interest we might be earning on our cash is not much these days, the states have not all reduced their interest rates to levels appropriate for the economy. In fact, some states still have interest rates in the double digits. For example, Rhode Island and Wisconsin top the chart at 18 percent—and 13 states have rates above 10 percent.

In addition to assessing interest, states are getting much more aggressive on assessing penalties, and multiple penalties could apply. These could include failure to file, failure to pay, and intent to evade.

The interest for failure to file and pay averages 10 percent of the tax due. However, a number of states assess an amount per month up to 25 percent. The interest for intent to evade is generally 50 percent to 100 percent of the tax due.

In the past, it was usually fairly easy to request an abatement of the penalties, particularly for a first audit. However, as states are looking to offset their desperate budget crises, these waivers are less likely.

Many States Are Making Services and Digital Goods Taxable

Another issue is the determination of whether an item or service is taxable or not. If you are only focusing on the tangible items you are purchasing, you are likely out of compliance. Many states are increasing their tax base by adding both services and digital goods to what they consider taxable.

As the focus of our economy shifts from goods to services, the complexity of taxability determination increases. Issues such as where to source the transaction, determining the state that has the right to tax, and what rate applies become much more challenging.

Getting in compliance and staying in compliance with sales and use tax is not only required but becoming a more significant

ACCOUNTS PAYABLE CALENDAR

IOMA/TAPN Accounts Payable Training & Certification Program

Register now for the *IOMA/TAPN Essentials of Accounts Payable Training & Certification Program*, a one-day intensive AP seminar in preparation for the AP Certification Exams taking place on October 19, 2011 in Las Vegas. Live online video classes: May 2nd, August 8th, December 5th. For more information go to: www.iofm.com/apcertclasses, or to register, contact John Watkins at 203-889-4973, or via e-mail at: John.Watkins@iofmonline.org.

Accounts Payable Conference and Expo, October 19-21, Las Vegas, NV. For information, or to register, contact John Watkins at IOMA/IOFM at 203-889-4973, or e-mail John.Watkins@iofmonline.com.

Accounts Payable Professionals IAPP Fusion 2011, May 8-12, Orlando-Kissimmee, FL. For information, go to www.iappnet.org.

Advanced Information Reporting Compliance Seminar, Atlanta, GA, July 21-22; Chicago, IL, July 26-27; Dallas, TX, July 19-20; Los Angeles, CA, July 14-15; Minneapolis, MN, July 28-29. For information, go to www.ap-now.com business cost for those who ignore their responsibilities. ❑

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Measuring Working Capital

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put, it is a company's average payables period or the measurement of how long a company takes to pay its trade creditors. DPO is usually viewed over a period of time—monthly, quarterly or yearly. A common formula to calculate DPO is: Accounts payable, divided by cost of sales, times number of days (for example, 365).

Regardless of how DPO is calculated in your company, it must be done in a consistent manner so that trends are meaningful. A high or rising DPO is desirable and is usually a sign of a company enjoying favorable terms from their creditors. When DPO is low, it indicates that a company is paying its creditors quickly.

Many industries have standards for what equals a healthy DPO ratio. A study by Aberdeen Group indicates that companies that are "Best in Class" have a DPO that is 13.6 days higher than their peers. Everyone in AP should be aware of the industry standard, the company's current DPO, and management's DPO goal so they can take into consideration the effect their everyday actions have on DPO.

Partner With Your Vendors

When working to increase your company's DPO, remember that, much like accounts payable has a complementary function in the vendor's accounts receivable department, DPO has a complementary ratio on the vendor's side in DSO, or days sales outstanding. This is a means of recording how quickly the vendor is getting paid—and of course vendors want their DSO to be low.

This means is that in order for your company to successfully increase its DPO, you need to partner with your vendors so that their DSO remains acceptable. Otherwise, any improvements you make are likely to be short-lived, as the vendor will push back when its DSO falls to an unacceptable level.

As in other areas of supplier relations, a win-lose attitude can cause an immediate improvement, in this case an upward blip in DPO, but a long-term decline. Increasing communication, improving processes, and eliminating exceptions can improve the overall buyer-supplier relationship—including improvements in DPO and DSO—so that both sides share a win.

The Cheapest Source of Cash Is Working Capital Management

Enhancing working capital management becomes more of a focus when economic

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Undoing the Damage of Slow Payments

Many companies decide the simplest way to improve DPO is to start paying vendors more slowly—dragging out the payments. This is never a good idea, but if this policy is put into place in your company, there are three ways to mitigate the harm done.

First, if you are doing daily check runs, consider moving to weekly runs. The most common check run frequency is weekly.

Second, vendors are often willing to accept payments a few days late when they are made in the closest check run.

Third, vendors are still likely to allow early payment discounts on slightly late payments, so you can continue to capture savings.

Any moves beyond these simple strategies are prone to backfire, as suppliers are likely to renegotiate terms unfavorably—or increase prices.

NEWS BRIEFS

WILL THE CRISIS IN JAPAN AFFECT YOUR COMPANY?

The March 11 earthquake and tsunami in Japan have resulted in Japanese ports, roads, railways, and airports being shut down or damaged. Some Japanese factories have had to stop or slow production. Auto and technology companies are cut off from suppliers in the disaster zone.

If your company deals with international vendors, it may be experiencing vendor disruptions and invoicing issues as a result of the crisis in Japan.

Jon Bovit, chief marketing officer of CVM Solutions, reporting for *Forbes' CIO Network*, suggests how companies can use the AP master vendor file to quickly identify Japanese vendors.

Generate a list of Japanese vendors. Create a list of vendors you currently use that are based in Japan. "Even small suppliers can have a big impact and disruption if not identified," says Bovit.

Prioritize the list. Create a prioritized list based on how much your company spends with each supplier and what types of goods and services each supplier provides. "One company spent $250 million with the top five Japanese suppliers alone that provided important industrial organic chemical supplies and other biological research services," says Bovit.

Set up Google Alerts for news about your top suppliers. "A simple and free service from Google, called Google Alerts, allows you to track the impact on your vendors of news events as they happen. For example, one supplier published news on the events in Japan and described the challenges that it is currently facing. These alerts will help your company better understand the steps that your Japanese suppliers are taking to protect or rebuild their supply chains," he adds.

"An incredible set of events have combined to create one of the worst, widespread, and far-reaching natural disasters of our generation," says Bovit. "But in the wake of the destruction, business leaders must assess the impact that these types of world events have on their operations and stakeholders."

POSITIVE PAY: THE BEST WAY TO COMBAT CHECK FRAUD

As check fraud becomes more of an issue, more companies are using positive pay. Without a doubt, it is the best defense a company has against check fraud.

Companies that use positive pay send their banks a check issuance file every time they have a check run. This tape, which can be sent electronically, contains information about the check number and dollar amount for each account.

Before a check is honored, it is matched against the file. If it is not on the list or has already cleared, the check is bounced. Banks impose a deadline that allows a company to tell the bank not to honor a check.

There are several variations to the original positive pay: reverse positive pay, teller positive pay, and payee positive pay. With reverse positive pay, the bank sends the company a listing of all checks presented each day, along with check numbers and amounts. The company has a deadline to notify the bank and tell the bank not to honor a particular check.

With teller positive pay, the latest information is at the fingertips of the teller in the bank who is being given checks to be cashed. With payee name verification, the payee name is provided on the tape so that the bank can verify the identity of the party submitting the check.

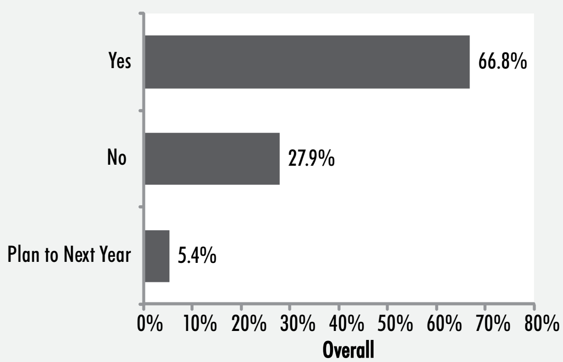
Use of positive pay has been steadily increasing over the last several years. In 2010, 67 percent of all companies surveyed were using it (see exhibit), up from 64 percent

NEWS BRIEFS

in 2007 and 52 percent in 2005.Use of positive pay goes up dramatically with company size. In 2010, 88 percent of companies with 5,000 or more employees used positive pay, compared with 28 percent of companies with fewer than 100 employees.

Positive pay is used by more than half the companies in all sectors except for services

Use of Positive Pay



(Source: IOMA/IOFM)

(business/legal, etc.) where only one-quarter (25 percent) of companies are using it and only 10 percent plan to next year. The heaviest users of positive pay are in manufacturing (83 percent), transportation/communication/utilities (79 percent), and information technology (70 percent).

GET THE WORD OUT WITH AN AP NEWSLETTER

Improving communication between accounts payable and AP's in-house constituency is one of the best ways to improve both the performance of accounts payable and the perception of AP in the company.

Simply publishing policies, procedures, schedules, and cut-off times is not sufficient. In order to really communicate, the information needs to be accessible, informative, and inviting to read.

Some common topics or sections that are frequently included in newsletters are:

- Policies, especially any changes;
- Tips on how to do things better;
- Personnel changes or promotions;
- Personal news (birthdays, babies, etc.);
- Employee profiles;
- Who does what;
- Success stories;
- Ask the expert/advice columns; and
- Calendar of events

There are a couple of things you need to keep in mind:

- **Be careful that your articles are free of bias.** You don't want to insult anyone—even inadvertently.

- **Have several people read each story to check for content, spelling, and grammar errors.** Remember that while a spellchecker can be a great help, it sometimes guesses incorrectly, so make sure you proofread your copy.

- **Include some items that help familiarize AP and AP staffers.** It's a good way for people outside of your department to get to know the AP staff.

- **Don't get bogged down with a schedule.** An AP newsletter doesn't have to be slick, lengthy, or even published regularly. You might just want to publish once a quarter perhaps, or when there is a policy change.

However, if you stop to think about all the questions and issues that come up in AP on a regular basis, it is unlikely that you will ever run out of material!

Measuring Working Capital

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times are tough because the cheapest source of cash is working capital management. This focus often makes itself apparent in accounts payable by a new emphasis on DPO—or more frequent phone calls regarding the DPO trend.

A large portion of DPO is outside of accounts payable's control since, for the most part, DPO is a measure of how good the terms are that creditors provide to the company. Negotiating terms is usually a function of the purchasing department, but it is certainly possible for poor practices in AP to make it difficult for purchasing to negotiate advantageous terms.

How Can AP Help Purchasing?

One way accounts payable can assist in negotiating better terms is by providing purchasing with information. Purchasing may not realize how many different terms are being used companywide.

AP not only knows how many terms are in the system, it also knows when terms differ for one supplier for different cost centers or regions. This information can arm purchasing with the knowledge it needs to gain the most favorable terms for the entire company's purchases. Vendors that are paid on time are more amenable to granting the improved terms that will improve DPO over the long haul.

Accounts payable also knows how many vendors are used to source a particular product or service. Sharing this information with purchasing can enable it to consolidate purchases to gain both better pricing and better terms.

In addition, AP can work with purchasing to standardize supplier terms and agreements and to put in place a sound method for dealing with exceptions that includes an escalating process to ensure that exceptions are resolved.

Four Ways to Maintain Good DPO

For AP, the best way to contribute to maintaining good DPO is to practice sound cash management practices. Invoices should be paid exactly on time—paying them too early will damage the company's DPO.

1. Always review the terms on each invoice and set up payment accordingly. Ignore notes from approvers that indicate an invoice should be paid early—if a vendor states terms on the invoice, there is no reason to deviate from the stated terms.

2. Make sure that your vendors are aware of the default terms you will use if no terms are indicated. Be sure that the default term is in line with company priorities—obtaining discounts vs. cash flow. If obtaining discounts is a high priority, your default term might be 2% 10/Net 30. If cash flow and DPO is a higher priority, your default term might be Net 45 or Net 60.

3. Research the root causes of rush checks and work to eliminate them. A significant number of rush checks or "pay immediately" invoices will negatively affect DPO. Monitor abusers of the rush check policy and work directly with them and their supervisors to educate them on the negative

Correcting Poor Performance in AP Has Huge Benefits Despite Temporary Dip in DPO

Sometimes improving AP processes can have a negative impact on DPO, because invoices move from being paid late to being paid on time.

Over the long term, the savings add up because you will be able to take discounts and avoid late fees, but at first AP managers will feel some pressure regarding a slip in DPO once a centralization or other project that streamlines AP is completed and payments go out on time.

This is something that needs to be kept in mind when considering the overall effects of AP automation projects.

impact of rush checks. When attempting to gain support for a more restrictive rush check policy, DPO damage can be a good selling point to your CFO and will encourage approval and enforcement of stricter rules.

4. Automate high-volume, low-value transactions. This will free up time to focus on high-value suppliers and transactions. It will minimize costly and error-inducing rushed handling and improve relations with your high-value suppliers.

How to Achieve Best-Practice Status

Most successful programs to increase DPO include the following attributes:

- People in your company know what DPO is, and understand why increasing it is important;
- Policies and processes are in place that maximize DPO; and
- Systems are in place that are configured to maximize the organization's DPO and are flexible and adaptable enough to reflect changes when necessary.

Using or developing reports that show payments viewed from an "on-time" perspective is one way to evaluate AP performance and one that is especially valuable in terms of responding to phone calls regarding DPO performance. The reality is that even though purchasing should be held to account for DPO, it is accounts payable that is usually called upon to deliver a good number. ❑

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AP Professional Calendar

Sponsored By: IOMA/IOFM's AP Advisory Services

JUNE 2011 Tip of the Month: Start "mapping" your process to show how the work flows and who does what.

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
29	30	31	1 Send out updated vendor terms list to AP.	2	3 Deactivate vendors not used for the prior 12 months.	4
5	6 Send out remaining vacation hours to staff and remind them to get their vacation dates on the calendar. Also remind them of year-end restrictions.	7 Reconcile petty cash account and prepare journal entry.	8	9 Finish GL and bank reconciliations.	10	11
12	13 Input new/updated TINs to master vendor file.	14	15 Start review of AP Policy & Procedures Manual.	16 *IOMA/IOFM Webinar* *AP's Overlooked Tax Risk: Payments to Employees and Payments for Employee Perks, Marianne Couch* *For more information, go to iofm.com.*	17	18
19	20	21 Recogni□e birthdays and other events during the month□celebrate□	22	23 Review recurring payments and leases to make sure they will be going out properly.	24 Send month end closing notice reminding departments to turn in invoices and e□pense reports for processing □to avoid accruals□.	25
26	27	28	29	30 □oid any checks that have been returned.	1	2

Are you or members of your department certified yet? IOMA is ready to certify you! Go to www.iofm.com for more details.

□Source□*Managing Accounts Payable*□

Automation

CONTINUED FROM PAGE 1

invoices in your system, from receiving to payment and archiving.

Then select three or four key metrics, such as the cost to process an invoice, how many workers are required to process the invoice, or how long it takes from receipt of invoice to being posted in the accounting system.

"You need to find a baseline to measure changes once you are automated," says Casher. He also advised AP managers to:

- Streamline AP processes as much as possible before automating;
- Make sure you have the best possible process in place;
- Identify participants, types of documents, associated transactions, transaction media, and delivery methods;
- Identify all types of inputs to AP, and document the flow within AP;
- Prepare a flow chart or dataflow diagram; and
- Refine rules so they can be implemented with your automated workflow solution.

Expand one department at a time, so you can spot problems and track the metrics. You should be seeing changes to your rate of processing fairly soon.

Finally, at the end, extend your automation initiative to vendors. At this point you are aware of how you want to receive and handle electronic invoices and will be

Congratulations to the AP Professionals Who Have Achieved Certification in the IOMA/TAPN Accounts Payable Certification Program in March!

In March, the following AP professionals took the IOMA/TAPN one-day certification program and exam and earned an Accredited Payables Specialist (APS) certification (for key AP staff), an Accredited Payables Manager (APM) certification (for AP department heads), or a 1099 certification. The five people listed below were first professionals to receive the new 1099 certification. Congratulations to the graduates!

Altronics, Inc.
Carol Ann Albee, 1099

Activision Blizzard
Tanya Stevens, APM

Aerzen USA Corp.
John Blanton, APM

Ameren Corporation
Rosa Thompson-Allen, APS

Children Surgical Associates
Dana Cedrone, APS
Thomas Concannon, APM
Rita Glace, APS
Diane Nixon, APS
Nancy Pauzano, APS
Evens Pierre, APS
Michelle Sanders, APS
Maureen Verna, APS

City of Venice
Kathy Millspaugh, APM

CNH America LLC
Al Derga, APM

CU Direct
Michele Ramirez, APS, 1099

Express Scripts
Angela Englert, APM

FEV, Inc.
Melissa Craig, APM

Genpact-Walgreens
Jodie Kaye Myers, APS
Jeannie Patterson-Rivera, APM
Valerie L. Stal, APS

Huntsville Utilities
Carliso Star Hardin, 1099

Merck Pharmaceuticals
Mara DiFino, APM

Motricity
Andrea Sellars, APS

Pacific Gas & Electric Company
Denise James, APS

REC Silicon
Rich O'Neill, APM

REC Silicon
Melissa Vaira, 1099

San Diego State University
Cathleen Austin, APS
Micki Carlson, APS
Alma Escobedo APS
Lance Greenzweig, APS
Janet Meador, APS

Security Service Federal Credit Union
Dorothy Morris, 1099

Dinesh G. Shinde, APS

Silver Spring Networks
Isabel Hartt, APS

Sony Computer Entertainment
Kellie Treadwell, APS

Suntrust
Marilyn Green, APM

Ubisoft
Renee Ziegler, APM

University of New England
Sarah Razak, APM

For more information on the certification program, please contact Andrew Fitzpatrick at 203-889-4977, e-mail andrew.fitzpatrick@iofmonline.org, or view our online video at www.iofm.com/products/view/accounts-payable-certification.

better able to monitor and manage the system.

Thus, rather than going totally automated in one step, Casher advises phasing it in, beginning with automated workflow.

Automated Workflow

Processing your invoices electronically requires front-end imaging, which allows much better tracking ability. Most systems allow real-time monitoring of invoices, to find bottlenecks and manage workloads. And many metrics are automatically compiled, making your analysis easier.

Casher estimated that the cost, effort required, and elapsed time to implement workflow automation are all moderate. However, significant staff training and about 90 to 180 days will be required to put the process in place. Some large companies take up to six months, Casher notes.

There will be significant changes to the tasks AP staff does and how they do them, and there will be changes in how people submit or approve invoices and other transactions. The benefit will be a significant improvement in AP productivity.

"It more than doubles overall productivity—we've seen that number time after time over 30 years," Casher stated. And cycle time is significantly reduced. It cuts 80 percent to 90 percent from receipt to posting.

Automated workflow also:

- Improves cash management and eliminates lost discounts;
- Significantly improves controls;
- Eliminates "lost" invoices;
- Allows for automated follow-ups, reminders, and escalations; and
- Increases visibility of status of items awaiting actions by people outside of AP.

In addition, software "dashboards" can provide real-time status, enabling rerouting. For example, if one person is out, you can move their invoices to someone else. Automated workflow also allows fast and flexible reprioritization. Finally, it provides excellent opportunities to implement best practices.

Intelligent Electronic Capture

While back-end imaging provides an electronic file cabinet and can eliminate a lot of paper, intelligent electronic capture (IEC) is better than just scanning. Data is automatically extracted from images and placed into fields, and the extraction software automatically "learns" based on keywords.

"Not every vendor has the words 'invoice date' on the form," Casher noted, so it's useful that the software can remember phrases from previously processed documents. Source documents can be structured or unstructured.

Once you have automated workflow, Casher estimates that the cost, effort required, and elapsed time to implement IEC are about one to two months.

There Will Always Be the 'Exception'

Ideally, automation can receive, match, and pay invoices electronically without human intervention. Documents come in electronically, computers match invoices electronically, and suppliers are notified automatically by e-mail.

"But that creates an almost unachievable expectation," says Jon Casher, president, Casher Associates Inc. and senior consultant, IOMA/IOFM Advisory Services. "In reality, it will never be the case that 100 percent of invoices will come in electronically."

To be sure, electronic matching has its challenges. For example, telephone bills, utility bills, and consulting bills do not have associated receiving documents. And some transactions processed by AP do not have invoices—like employee expense reports, recurring payments, donations, garnishments, accruals, and accounting adjustments.

"And, of course, no AP system is without its exception processing," says Casher. "Fifty percent or more of AP is exception processing. One AP manager reported that 92 percent of her company's invoices came in electronically—and most of the workers dealt with exceptions. Another large company reported that 98 percent of the invoices it received were electronic. Yet it had 24 staff members in the AP department, 16 of them focused on exception processing."

What Type of Automation Are Companies Adopting?

Accounts payable departments are implementing an exciting and broad array of technology solutions to automate processes and yield improvements in efficiency, accuracy, quality, and customer service at every stage in the AP workflow.

Respondents to IOMA's Institute of Finance & Management's *2011 AP Automation Survey* reported on what technologies they've been using and for how long (see the exhibit), as well as provided insights into some of the solutions they're planning to put in place.

The technologies that have been in greatest use for at least one year are financial accounting/ERP systems (81 percent of respondents), pay via ACH (61 percent), and p-cards (59 percent). Other technologies that have been implemented for at least one year include sending vendors remittance information via e-mail (41 percent), automated travel and expense reporting (37 percent), back-end imaging (35 percent), e-procurement, and front-end imaging and workflow (both 33 percent).

About 7 percent of the respondents adopted electronic invoicing in the prior year. Six percent implemented remittance information via e-mail, 5.3 percent now use ACH, 3.6 percent adopted front-end imaging and workflow, and 4.2 percent implemented back-end imaging.

Of those currently in the process of adopting AP automation, 9.9 percent are implementing automated T&E Reporting, 8.7 percent are implementing electronic invoicing, 6 percent will developing a system to send remittance information via e-mail, 10.7 percent will use a Web portal for invoice submission by vendors, 6.5 percent will introduce a Web portal for status inquiry by vendors, and 8.5 percent will adopt front-end imaging and workflow.

Many companies plan to adopt technology within a year. Of those, 9.6 percent will adopt electronic invoicing, 8.1 percent are planning for front-end imaging and workflow, 5.1 percent will adopt a Web portal for invoice submission by vendors, 10.2 percent plan an OCR (optical character recognition) implementation, 4.5 percent want to automate T&E reporting, 6.4 percent are looking to develop a system to send remittance information via e-mail, and 7.4 percent want to build a Web portal for status inquiry by vendors.

Overall Use and Planned Implementation of AP Technology

	In Use Over 3 Years	In Use 1-3 Years	In Use Under 1 Year	No Plans to Use	Currently Imple-menting	Plan to Purchase/ Implement within 1 year	Plan to Purchase/ Implement in 1-3 years
Financial Accounting or ERP System	73.4%	7.9%	1.7%	6.6%	4.8%	2.2%	3.5%
E-Procurement	22.9%	10.1%	1.4%	46.3%	4.1%	6.0%	9.2%
Back End Imaging	26.9%	8.0%	4.2%	39.2%	6.1%	5.7%	9.9%
Front End Imaging and Workflow	22.4%	10.8%	3.6%	29.6%	8.5%	8.1%	17.0%
EDI - Electronic Data Interchange	23.4%	5.9%	1.8%	50.5%	5.9%	3.2%	9.5%
Web EDI	9.1%	4.8%	2.4%	69.4%	2.9%	3.8%	7.7%
ERS - Evaluated Receipt Settlement (pay on Receipt and PO with no invoice)	9.0%	3.8%	0.5%	71.2%	1.9%	1.4%	12.3%
Negative Assurance / Assumed Receipt (pay without Receipt)	3.8%	3.8%	1.9%	82.3%	1.9%	1.0%	5.3%
Electronic Invoicing	14.2%	11.5%	6.9%	31.7%	8.7%	9.6%	17.4%
OCR - Optical Character Recognition	9.3%	3.2%	1.4%	55.6%	6.5%	10.2%	13.9%
Automated Travel Booking	15.8%	9.5%	6.3%	53.8%	6.3%	2.7%	5.4%
Automated Travel and Expense Reporting	23.9%	12.6%	3.6%	36.5%	9.9%	4.5%	9.0%
P- Card	48.9%	10.1%	2.2%	27.3%	4.8%	2.6%	4.0%
Pay via ACH (Automated Clearinghouse)	48.9%	12.0%	5.3%	16.4%	5.8%	6.2%	5.3%
Pay via Direct Deposit	42.8%	9.9%	2.7%	32.0%	7.2%	3.2%	2.3%
Send Remittance Information to Vendors via E-Mail	28.4%	12.4%	6.9%	33.5%	6.0%	6.4%	6.4%
Web Portal for Vendors to Submit Invoices	8.8%	2.3%	2.3%	54.9%	10.7%	5.1%	15.8%
Web Portal for Vendors to obtain Invoice and Payment Status	8.8%	1.4%	0.9%	58.1%	6.5%	7.4%	16.7%
Automated Sales and Use Tax Verification and/or Calculation	16.9%	4.2%	1.9%	58.2%	8.0%	5.2%	5.6%
Supplier Initiated ACH Debits	11.5%	1.9%	3.3%	72.2%	5.7%	2.9%	2.4%
Other	1.1%	0.0%	1.1%	88.8%	4.5%	2.2%	2.2%

(Source: IOMA/IOFM)

IEC more than doubles productivity of AP staff who key invoices. "I've been in companies where someone can process as many invoices in an hour as they once did in a whole day," says Casher.

By eliminating file cabinets, IEC saves 25 percent to 50 percent of AP department space and virtually eliminates offsite records storage and retrieval costs. In general, it can save 30 percent to 50 percent of invoice processing costs. "Measure your cost metrics," Casher advises.

Vendor Portals

Extending automation to your vendors can dramatically reduce the time spent by your staff in answering vendor questions. The most common question is "when will I get paid?"

A self-service portal lets vendors see where you are in the process. Casher suggests making your portal flexible. Allow suppliers to submit invoices electronically via electronic data interchange (EDI), Web EDI, spreadsheets, or e-mail. "It doesn't really matter how they send the electronic information," he says.

Also allow your suppliers to track invoice and payment status. Suppliers, AP, purchasing and other departments can resolve disputes electronically—and this gives you a complete audit trail.

The one-time impact, cost, and effort are moderate. Most of the resources and time are related to the required vendor training. But vendors can train sequentially, starting with your highest volume vendor, in order to decrease staff impact. The estimated implementation time is approximately 30 to 90 days to implement vendors with high invoice volumes. ❑

Source: IOMA/Kofax webinar, "Intelligent Capture and Automated Workflow: The Keys to Accounts Payable Efficiency & Effectiveness," presented January 25, 2011.

ACCOUNTS PAYABLE MANAGERS' FORUM

DOUBLE DUTY: HANDLING TWICE THE INVOICES IN LESS THAN HALF THE TIME

Challenge: A large manufacturer decided to centralize all its accounts payable operations at its New York headquarters. The move doubled the number of invoices to be processed.

Since the New York AP clerks were manually keying invoice data, the situation quickly became critical. Under pressure, the staff began transposing numbers, entering incorrect vendor information, and keying in the wrong dates.

Vendor discounts were lost because the approval process became lengthy, labor-intensive, and inefficient.

Strategy: The AP manager began to advocate to upper management to automate with an invoice scan and capture system.

The manager knew she had to have hard data to demonstrate the need for automation, so she conducted a process review and then began tracking the turnaround time from receipt of invoice to payment. The results showed that the AP department was in the "laggard" category when compared to companies of like size and staffing levels.

Results: The AP manager was able to make a case for implementing an automated workflow system.

Once the system was adopted, the benefits quickly emerged. Productivity increased. The department was able to handle twice the invoice volume without adding personnel. AP clerks were reassigned to more valuable tasks.

The software captured and optimized the image for recognition, and optical character recognition (OCR) was applied for data extraction. The software identified each individual vendor by the layout of the invoice and the remit-to ZIP code.

AP staff evaluated the image and data side-by-side on screen. They corrected any OCR errors or fields that had failed business rules.

The images were indexed with the invoice header data for efficient search and retrieval in the system. Non-PO invoices that required approvals were routed through Lotus Notes AP workflow.

As a result of the new system, data entry errors dropped, which saved the time and labor of supervisors tracking down and correcting mistakes. The approval process became much more efficient for exceptions requiring sign-off by a department head.

A process that once took 12 steps and a week to complete could now be executed in a day—with the help of automation.

MANAGING ACCOUNTS PAYABLE
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