How to Achieve AP Excellence Through Automation

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Today's Speakers

As President of Doxey, Inc. and as a management consultant, Chris works with her clients to implement internal controls and process digitization.

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Ryan Nelson is the CEO & Co-Founder of Goby. Ryan has more than 20 years of experience in enterprise software and leadership positions.

Ryan founded Goby in 2009, and since been focused on turning big data into big opportunities, with technology.

Ryan Nelson

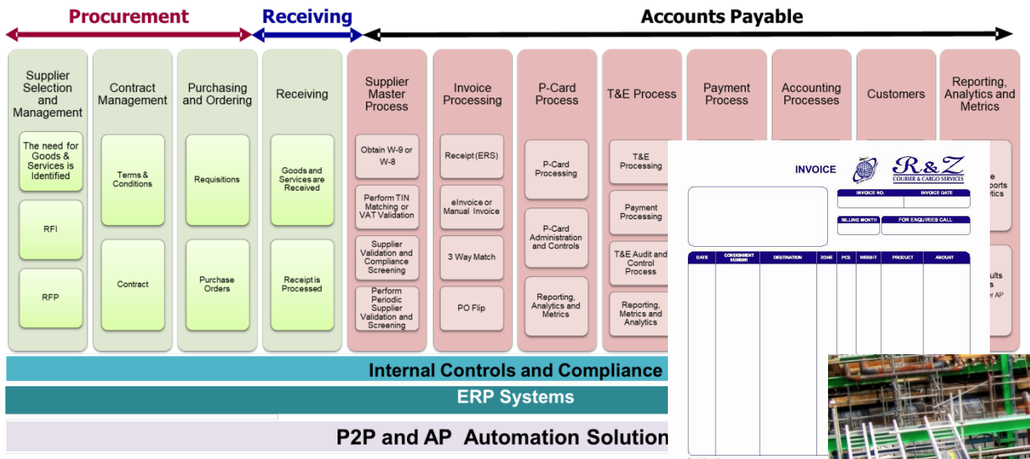
Agenda

- Defining AP Automation
  - Key Terms
- The Benefits of AP Automation
- Defining Your AP Process and Identifying Automation Opportunities
- The ROI of AP Automation
- Measuring Excellence
- Q&A

Defining AP Automation
- Key Terms

What is AP Automation?

AP Automation refers to the technology that is used to streamline and automate accounts payable processes - removing manual tasks and providing better visibility and control over important financial data.



Why Automate AP?

According to a Forrester Consulting survey, some of the key issues companies are looking to address include:

- **Inadequate Technology:** A significant minority of AP departments live without basic applications that others use to streamline their processes. Of our respondents, 47% get more than half their invoices in paper form, 26% match them with physical POs and other supporting records, and 42% insist on physical signatures to evidence approval. All these manual paper-handling tasks increase costs, delay processing, and increase errors.
- **Poor Purchasing Discipline:** Even AP clerks manually processing invoices can do far more than 5,000 a year if the invoices match supporting records. The most time-consuming invoices are those where the business hasn't raised a PO or has got the price wrong.
- **Complex Invoice Categories:** Not everything fits the "PO, receipt, invoice" sequence. Businesses that buy a lot of services face extra manual verification effort. Many finance functions create extra work for procurement by insisting on after-the-fact POs so they can still do a three-way match - this keeps the finance system happy but delays processing without noticeably improving control.

Other Key Terms

- **Invoice data capture:** Scanning software is used for invoice data capture so suppliers can submit invoices digitally, or in their chosen format, and an organization can digitize and import the data into a uniform format, eliminating the need to enter invoice information manually. The result is a paperless accounts payable process with improved data quality by reducing the risk of data entry errors. Capture software may be used to validate invoice details per an organization's pre-defined rules or requirements.

- **eInvoice:** An e-invoice is sent electronically via the Internet and can be integrated into the organization, supplier, and/or customer's accounts payable system The integrated electronic invoice document is typically between a buyer and supplier, and eliminates the need for paper-based invoices.

- **Invoice Approval Workflow:** The collection and reconciliation of invoices, purchase orders, and approvals within an organization by the AP department. Invoices must be matched, approved, and validated for payment and reconciliation. AP automation also enhances the visibility of the process and as such, an organization's ability to support spend analytics and audits.

Other Key Terms (Continued)

- **Invoice Matching:** Matching invoices manually is time-consuming, especially on a line level where each invoice row need to be connected, sometimes to multiple purchase orders, and verified. AP invoice automation handles a significant portion of the invoice matching in an automatic workflow, using intelligent matching technology and pre-set business rules.

- **Purchase Order (PO):** A purchase order is a document generated by a buyer that authorizes a purchase transaction. When the seller accepts the PO, it becomes a binding contract on both parties that outlines the descriptions, prices, quantities, discounts, payment terms, date of shipment or performance, and other terms and conditions related to the transaction between the buyer and a named seller.

- **Exception:** Deviations may occur when the unit cost of goods is different from what is stated on the purchase order (price deviation) or when the number of goods invoiced does not match the number delivered and reported on the GDR (quantity deviation). When an AP automation solution is in place the system can identify the deviating invoice rows and automatically send a notification to the buyer for further investigation.

Other Key Terms (Continued)

- **Days Payment Outstanding (DPO):** An organization's average payable period that measures the length of time it takes for a company to pay its invoices from suppliers and other trade creditors. DPO is also referred to as the number of days payable.

- **Touchless Invoice Processing:** No manual input is necessary from the time the invoice arrives at an organization to the time it is posted to the ERP for final booking and payment. Touchless invoice processing is possible when the invoice is automatically matched against a supporting document, such as a goods receipt and purchase order or contract, and sent for payment without any human handling.

- **Net Working Capital:** Net working capital (NWC) is the difference between a company's current assets and its current liabilities. This is a key measurement of a company's overall health, liquidity, and efficiency, as it reflects metrics from a number of company activities.

Polling Question 1

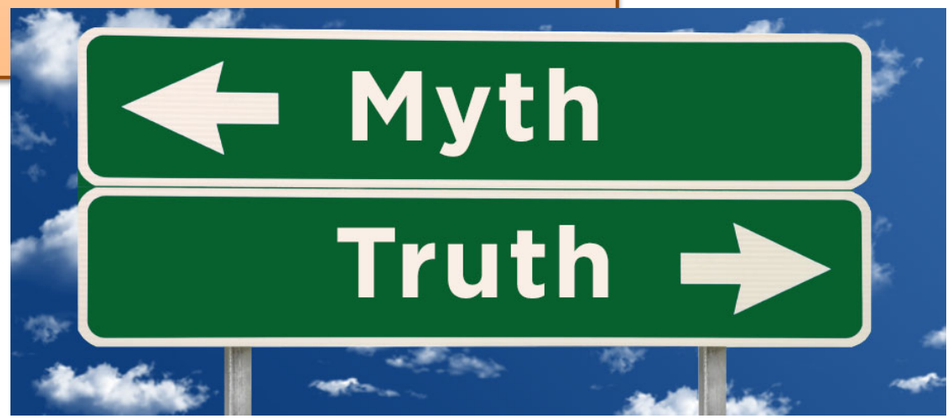
Why should the AP process be automated?

a) To avoid duplicate payments
b) To improve cost, compliance and controls
c) To reduce risk
d) All of the above

The Benefits of AP Automation

The Five Myths of AP Automation

1. The implementation process is too lengthy and cumbersome.
2. AP automation solutions are too expensive and don't fit our business model.
3. No one will ever use our solution.
4. We'll still need to deal with manual AP processes after implementation.
5. The risk of fraud is still a concern.



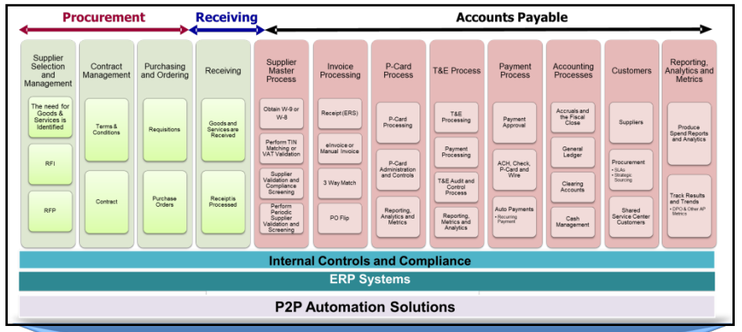
The Ten Benefits of AP Automation

Benefits
1. Payment Accuracy
2. Early Payment Discounts
3. Reduced Risk of Fraud
4. Improved Internal Controls
5. A Timely and Accurate Financial Close
6. Liabilities are Accurately Stated
7. Accurate Cash Forecasting and Management
8. New Efficiencies in the AP Process Allowing More Time for Analysis
9. Improved Customer Service and Supplier Relationships
10. Improvements in Working Capital

The Benefits of AP Automation

1. Supplier Portals
2. eProcurement
3. eInvoicing
4. PO to Invoice Conversion
5. Document Management, Invoice Scan and Data Capture
6. Automated Matching
7. Automated Workflow Approvals
8. ePayment
9. System Access Verification Tools
10. Accounts Payable Self-Audit Tools

Improved AP Cost, Controls & Compliance



Cost | **Controls** | **Compliance**

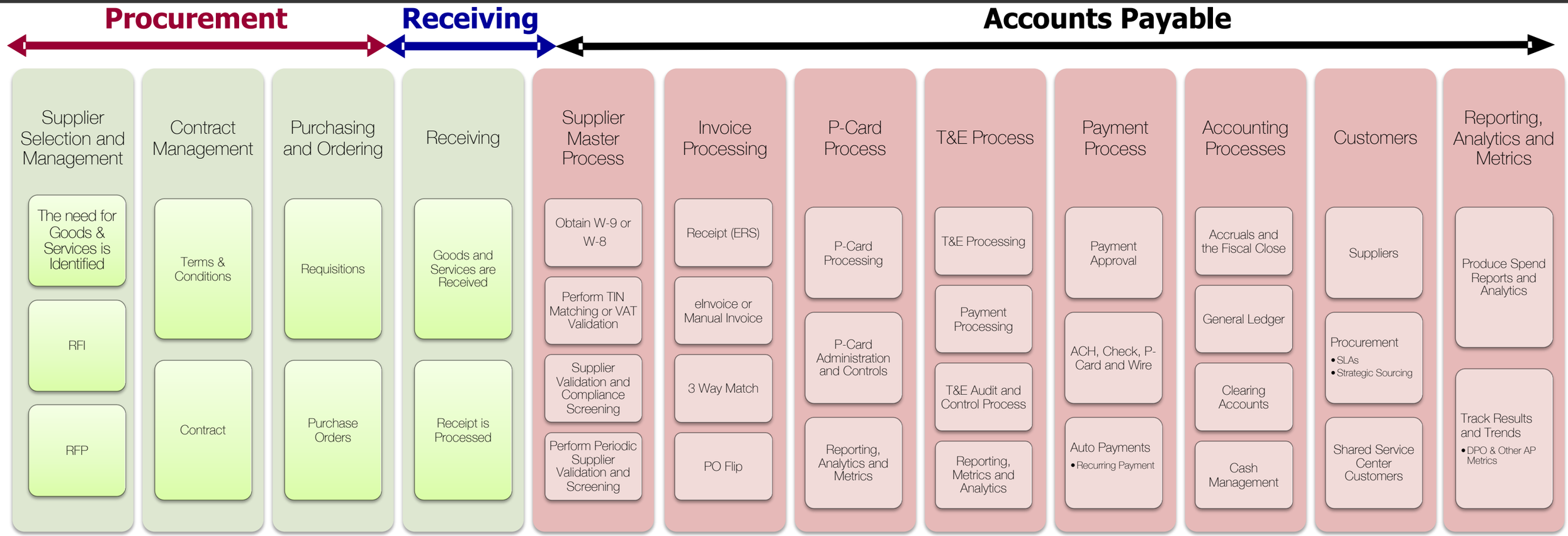
Defining Your AP Process and Identifying Automation Opportunities

Polling Question 2

What is the most tedious aspect of your accounts payable process?

a) Invoice coding
b) Getting invoices approved
c) Matching invoices to corresponding purchase orders
d) Getting payments approved
e) Setting up a payment run

The AP Process



Supplier Master File Process Details

Procurement

Accounts Payable

Supplier Selection and Management

- The need for Goods & Services is Identified
- RFI
- RFP

Contract Management

- Terms & Conditions
- Contract

Set up New Supplier (Via Portal or Manual)

- Obtain W-9 or W-8
- Perform TIN Matching or VAT Validation
- Supplier Validation and Compliance Screening
- Perform Corporate Defined Compliance Screening (OFAC, OIG, BIS and FCPA)

Internal Controls

- Periodic Supplier Screening
- Perform Due Diligence if Required
- Review Active Suppliers
- Perform Employee and Supplier Master File Validation

Reporting, Analytics and Metrics

- Strategic Sourcing
- Produce Spend Reports and Analytics
- Track Results and Trends
  - DPO & Other AP Metrics

Internal Controls and Compliance

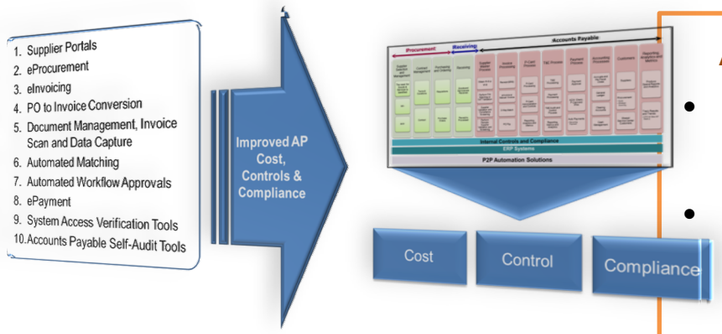
ERP Systems

AP Automation Solutions

Automating Supplier Onboarding

Manual Suppler Onboarding Process

- Receive request for a new supplier
- Perform manual supplier validation and compliance screening
- Collect W9s, W8s and Diversity Status
- Perform Manual TIN Matching
- Complete manual due diligence and resolve exceptions
- Obtain insurance certificates and other documentation
- Set up supplier in the Supplier Master



Automated Supplier Onboarding Process

- Automated supplier validation and compliance screening
- Suppliers upload required documentation
- Automatic communication to suppliers

Invoice Processing Details

Accounts Payable

Invoice Process (Manual or Automated)

- Receive Invoice
- Verify Approvals
- Perform 3 Way Match Process

Approval Process

- Verify Approvals via Delegation of Authority Policies
- Ensure Invoices are Approved and Routed to the Next Level via Workflow

Manage Exceptions

- Identify exceptions (Invalid PO, No 3 Way Match or Invalid Approvals
- Determine if the invoice should be placed on hold or in a blocked status
- Review Blocked Invoice Reports, Address Issues or Clear or Pay the Invoice

Ensure Payment Data is Correct

- Validate Banking Information for ACH and Wire Payments
- Validate Payment Address if Manual Check

Internal Controls

- Perform Periodic Invoice Transaction Control Tests
- Perform Supplier and Payment Risk Analysis Tests
- Remediate Issues

Reporting, Analytics and Metrics

- Report Invoice Volumes by Supplier and FTE
- Produce Payment Reports and Analytics
- Track Results and Trends
- DPO & Other AP Metrics

Internal Controls and Compliance

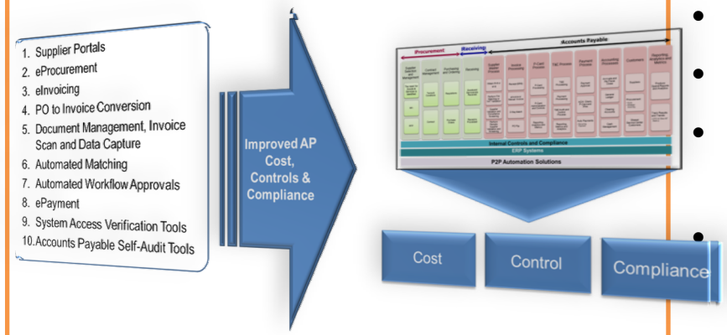
ERP Systems

AP Automation Solutions

Automating Invoice Processing

Manual Invoice Processing

- Receive manual invoice
- Perform the 3-Way Matching Process
- Identify and resolve exceptions
- Enter invoice data
- Code invoice
- Manage the approval process
- Verify coding and approvals
- Place invoice in the payment queue
- Authorize and release payment
- Process payment
- Send payment notification to suppliers
- Scan and file manual invoices
- Complete month end accounting processes



Automated Invoice Processing

- Receive eInvoice
- Automated 3-Way Matching Process
- Automated Coding via GL Interface
- Approvals via Workflow
- Authorize and Release Payment
- Complete Month End Accounting Processes
- Shortens invoice processing lead time to as little as two days
- Gives end-to-end visibility of the invoice process, from receipt to payment
- Removes complexity in every step of the workflow
- Increase productivity and reducing operating costs
- Provides comprehensive analysis and insights into financial data

P-Card Process Details

Employee

Accounts Payable (P-Card Processing)

Cardholder Provides P-Card Statement Data

- Complete Manual or Automated P-Card Statement
- Submit for Review and Approval
- Action taken on exceptions

P-Card Administrator

- Receives Invoice Data from Financial Institution
- Receives Statements
- Reviews Receipts and Adherence to Policy
- Verifies Approval Levels

P-Card Payment Processing

- Issues Payment to the Financial Institution
- Initiates Charges to the General Ledger

P-Card Expense Auditing

- Receives Audit Reports and "Red-Flag" Alerts from Financial Institution
- Check for Approvals and Exceptions
- Audits for P-Card Policy Adherence
- Reports P-Card Usage Violations

Reporting, Metrics and Analytics

- Provides P-Card Usage Analytics and Trends
- Performs Spending Analytics by P-Card Supplier Categories

Internal Controls and Compliance

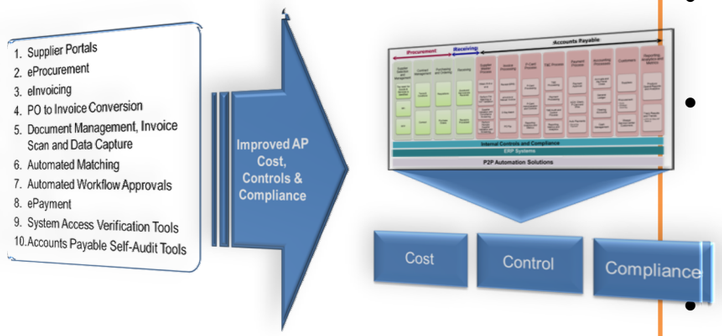
ERP Systems

AP Automation Solutions

Automated P-Card Process

Manual P-Card Process

- Manual P-Card statement submission by cardholder
- Manual reviews and audits performed by the P-Card Administrator
- Risks and issues identified
- Exceptions reported and resolved
- Month-end accounting processes and reconciliations performed



Automated P-Card Process

- Use an imaging system to capture receipts and match the receipts to statements on a monthly basis by cardholder
- Use robust reporting details provided by card provider
- Automatic general ledger coding based on the vendor merchant category codes, setting a $25 receipt requirement for submission, and electronic scanning of receipts
- Automation of the interface between the card provider and ERP for posting entries monthly

T&E Process Details

Employee

Accounts Payable (T&E Processing)

Completes Travel and Submits Receipts

- Complete Manual or Automated Expense Statement
- Submit for Review and Approval
- Action taken on exceptions

T&E Expense Processing and Controls

- Receive Expense Statements
- Reviews Receipts and Adherence to Policy
- Verifies Approval Levels

Payment Processing

- Processes the Expense Statement for Payment
- Produces the Employee Payment

T&E Expense Auditing

- Check for Approvals and Exceptions
- Audits for T&E Policy Adherence

Reporting, Metrics and Analytics

- Provides T&E Analytics and Trends
- Performs Spending Analytics by Travel Categories

Internal Controls and Compliance

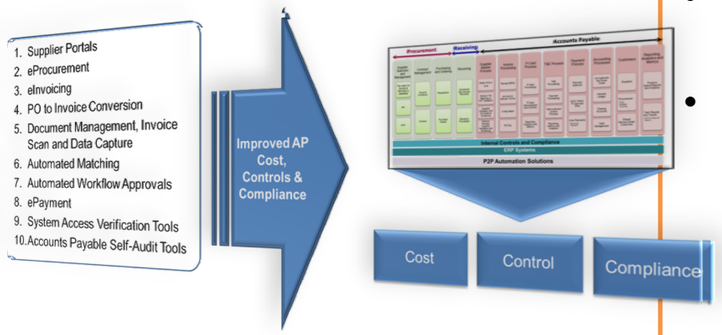
ERP Systems

AP Automation Solutions

Automated T&E Process

Manual T&E Process

- Manual T&E expense statement creation and submission
- Receipts scanned and expenses manually approved
- Reconciliation to corporate credit statements (if applicable)
- Manual reviews and audits performed
- Exceptions reported and resolved



Automated T&E Process

- Reduces the amount time employees spend planning business travel and completing expense reports
- Requires less staff time to support business travel and manage expense reports
- Enables cost savings through enhanced visibility and improved compliance with travel and expense policies
- Makes audit operations more robust and efficient while minimizing the risk associated with improper expenses and lost receipts
- Empowers employees to make smarter decisions and increasing employee satisfaction with options to book travel

Payment Process Details

Accounts Payable

Invoice Process (Manual or Automated)

- Receive Invoice
- Verify Approvals
- Perform 3 Way Match Process

Approval Process

- Verify Approvals via Delegation of Authority Policies
- Ensure Invoices are Approved and Routed to the Next Level via Workflow

Manage Exceptions

- Identify exceptions (Invalid PO, No 3 Way Match or Invalid Approvals
- Determine if the invoice should be placed on hold or in a blocked status
- Review Blocked Invoice Reports, Address Issues or Clear or Pay the Invoice

Ensure Payment Data is Correct

- Validate Banking Information for ACH and Wire Payments
- Validate Payment Address if Manual Check

Issue Payment

- Validate Payment Type (ACH, Wire, P-Card or Check)
- Validate Supplier Banking Information and Payment Data
- Determine Domestic or International Payment

Internal Controls

- Positive Pay/Positive Payee (ACH Positive Pay)
- Use Fraud Monitoring Tools
- Positive Pay and ACH Positive Pay
- Automatic notifications when operator entitlements are updated
- Funds Transfer Foreign Exchange and ACH Modules

Reporting, Analytics and Metrics

- Payment Types by Suppliers
- Produce Payment Reports and Analytics
- Track Results and Trends
- DPO & Other AP Metrics

Internal Controls and Compliance

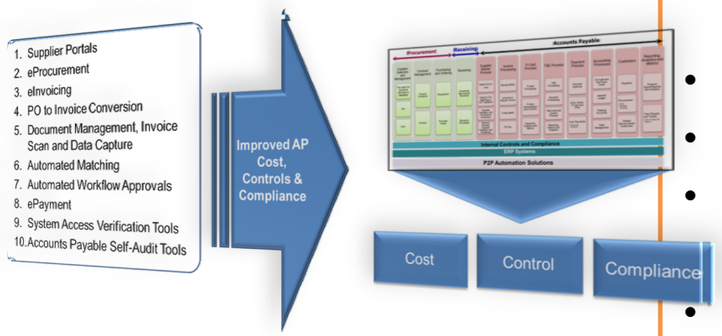
ERP Systems

AP Automation Solutions

Automated Payment Process

Manual Payment Process

- Produce manual checks
- Obtain check approval
- Mail checks to suppliers
- Control check stock
- Reconcile payment runs
- Utilize Positive Pay and Positive Payee controls
- Manage Unclaimed Payment and Escheatment processes



Automated Payment Process

- Reduce the cost and administrative burden of manual check runs
- Reduce supplier friction
- Take advantage of early payment discounts
- Reduce the risk of fraud
- Increase cash management visibility
- Increase the timeliness and accuracy of the month end close

Accounting Process Details

Accounts Payable

Validates the Data for the Fiscal Close

- Validates Monthly Cut-off Process
- Processes Accruals

Accrual Process

- Create Uninvoiced Report Accruals
- Create Receipt Accounting Distribution
- Match Receipt Accruals
- Audit Receipt Accrual Clearing Balances

Reconciles GL Accounts

- Reconciles Clearing and Accounts
- Validates Payment History and AP Sub-ledger to GL Activity
- Identifies and Resolves Variances

Fiscal Close Initiation

- Approves and Initiates Final General Ledger Entries

Reporting, Metrics and Analytics

- Provides Fiscal Close Metrics and Reports
- Performs Spending Analytics by Supplier
- Reviews Unclaimed Supplier Checks and Initiates Escheatment Process

Internal Controls and Compliance

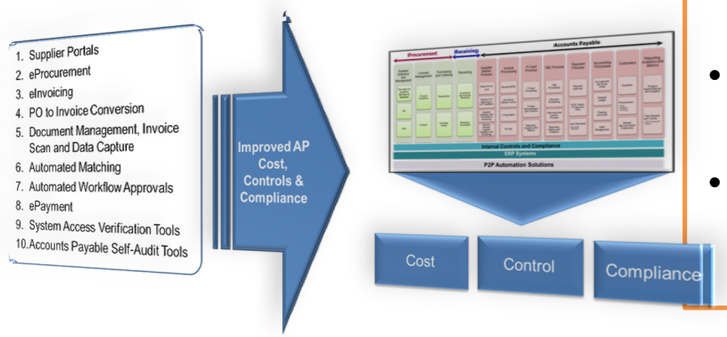
ERP Systems

AP Automation Solutions

Automated Accounting Process

Manual Accounting Process

- Communicate Month End Cut-Off Schedule
- Complete Manual Accruals and Reconciliations
- Ensure Clearing Accounts and Sub-Ledgers are Reconciled
- Resolve Variances



Automated Accounting Process

- eInvoices can ensure accurate GL coding and can alleviate accruals
- eInvoices can reduce Clearing Account and Sub-Ledger Variances

Customer Service Process Details

Accounts Payable

AP Inquiries are Received and Tracked

- Inquiries by Supplier Portal, Email, or Phone
- Inquires are Prioritized and Tracked by Problem Type

AP Inquiries are Resolved

- Disputed Invoices
- Past Due Invoices
- Invoices Incorrectly Entered
- Duplicate Payments
- PO Issues
- Debit/Credit Posting Issues

"Root Cause" Analysis

- Recurring Process Issues Identified
- Identifies Supplier Issues
- Process Improvements Made

Reporting, Metrics and Analytics

- Provides Customer Services Reports
- Reports Internal and External SLAs if required
- Reports SLAs to Purchasing by Supplier if Required

Internal Controls and Compliance

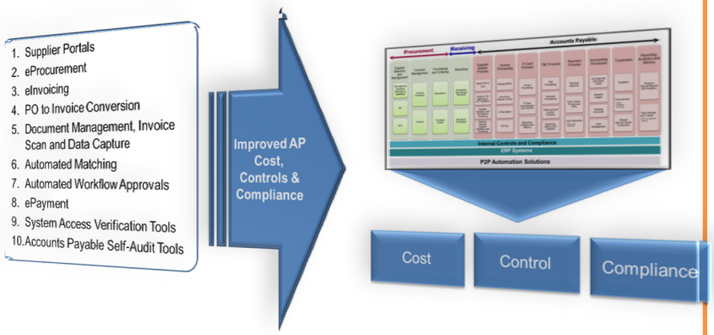
ERP Systems

AP Automation Solutions

Automated Customer Service

Manual Customer Service

- Suppliers initiate a phone call or email to determine the status of an invoice
- AP addresses supplier queries as received
- Supplier queries are coded by type of issue



Automated Customer Service

- Supplier Portals reduce the need to initiate a call or email
- Suppliers can view invoice status within the portal
- Disputed invoices can be quickly resolved

Reporting, Analytics and Metrics Process Details

Accounts Payable

Produce Metrics and Reporting by Categories

- Sending
- Process Efficiency
- Controls
- Customer Service

Identify Payment Anomalies

- Determine Root Cause
- Address Invoice Processing and Payment Issues
- Identify Supplier Issues and Report to Purchasing

Internal Controls and Fraud Reviews

- Determine Payment Risks and Update Controls
- Conduct Supplier and Payment Risk Analysis

Reporting, Analytics and Metrics

- Produce Spend Reports and Analytics
- Track Results and Trends
- Report
- Develop and Report AP Metrics

Internal Controls and Compliance

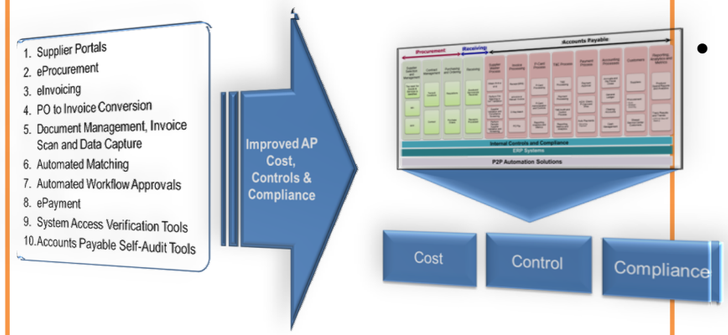
ERP Systems

AP Automation Solutions

Automated Reporting, Analytics and Metrics

Manual Reporting

- Data is gathered from multiple systems to generate reports – often on spreadsheets
- Metrics and analytics are produced on spreadsheets after the data is validated and reconciled



Automated Reporting

- AP reporting can support other departments, including procurement and finance in the identification of problems and additional root cause analysis

Valuable insight into data can be used with spending analytics, which helps identify suppliers operating outside of a company's policies

The ROI of AP Automation

Components of an ROI Calculator

1) Accounts Payable Salary and Available Hours

- Average Fully Loaded Salary per FTE
- Average Working hours Available per Hour

2) Information About Your Process

- What is the total number of suppliers in your supplier master file?
- How many new suppliers do you set up each month?
- How many invoices do you process every month?
- How many payment files do you issue a month?
- How many manual checks do you issue each month?
- How many wires do you issue a month?
- How many bank account changes are processed per month?
- What is your average annual spend?

3) Accounts Payable Process

- Do You Use a Third Party to complete a Suppler Master Compliance Screening Project? (Y/N)
- Do You Use a Third Party to complete a Suppler Master Clean-Up and Cleansing Project? (Y/N)
- Do you use a Third Party to screen individual supplier records? (Y/N)
- How much time do you spend on the Compliance Screening Process for New Suppliers?
- How much time do you spend Correcting, Verifying, and Updating Supplier Details?
- How much time do you spend addressing payment questions from suppliers?
- How much time do you spend verifying and validating any bank account changes made?
- How much time do you spend creating/maintaining a payment file?
- How much time do you spend do you spend producing a manual check?
- Potential Cost Savings - Delivery Costs For Rush Manual Checks
- Potential Cost Savings - Costs of Wire Transfers
- What is the average time spent reconciling a duplicate, erroneous or fraudulent payment?
- What is the average time spent performing an audit on a fraudulent supplier?
- Potential Risk Avoidance- Duplicate Payments (Note: 1-2.5% of Annual Spend Industry Average)
- Avoidance of Third Party Audit Fees

- **According to analysts, high performing AP departments outperform all others and process 27,097 invoices per FTE, per annum (APQC).**
- **More optimistic surveys even suggest 42,000 invoices per FTE, per annum (Hackett Group).**

Measuring Excellence

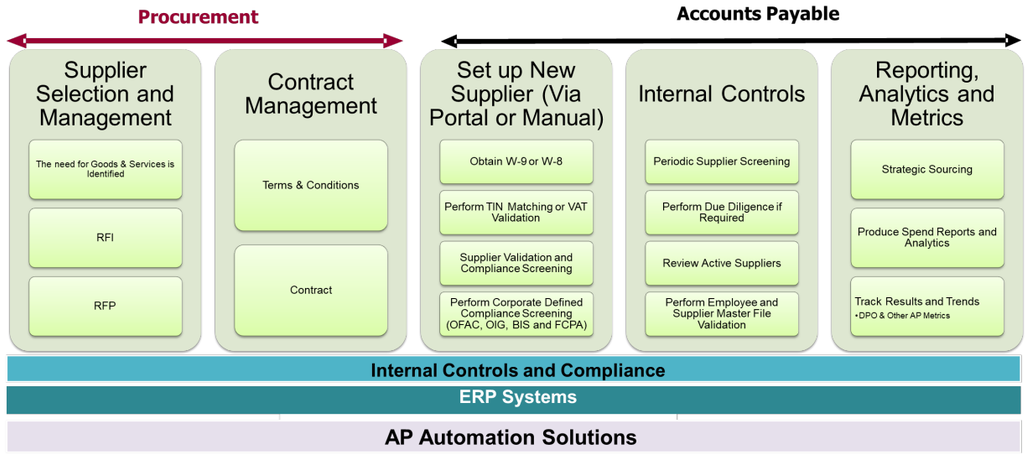
Polling Question 3

What are the benefits of reporting metrics for your AP process?

a) Metrics indicate process improvements
b) Metrics can show a process weakness
c) Metrics indicate areas for automation
d) All of the above

Supplier Master Metrics

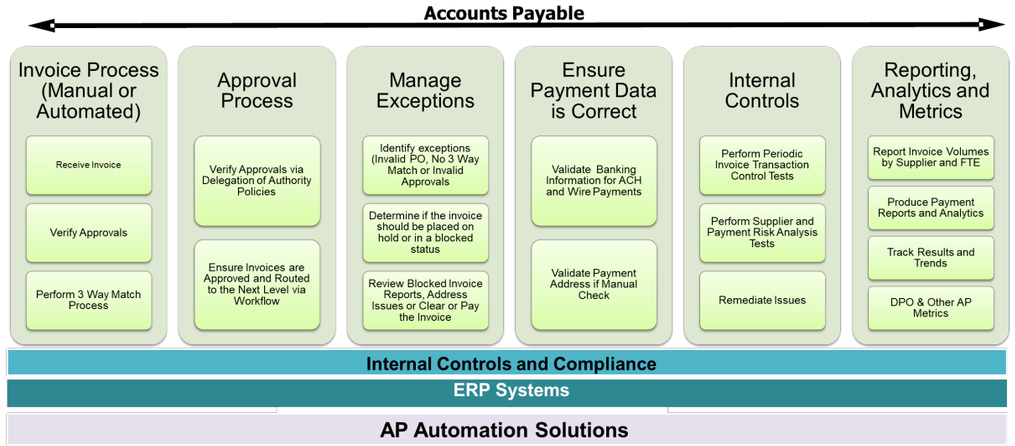
- Number of Suppliers Identified on Compliance “Watch Lists”
- Number of Suppliers Requiring Additional Due Diligence Verification
- Number of Suppliers Paid Electronically
- Number of Invoices Paid by Check, P-Card, Wire and ACH
- Number and Value of Payment Issues Stopped per Payment Run
- Number and Percentage of New Suppliers Established in the Supplier Master
- Number of Inactive Suppliers (With No Activity in the Last 18 Months)
- Number of Suppliers With Invalid Data (Returned Checks or Other Payment Issues)
- Number of Invalid Suppliers Identified
- Number of Suppliers Identified on Compliance “Watch Lists”
- Number of Suppliers Requiring Additional Due Diligence Verification
- Number of Employee and Supplier Master Cross Checks Performed
- Number of Matches Identified and Remediated



- Number of Active Suppliers in the Supplier Master
- Number of Suppliers Paid Electronically
- Number of Invoices Paid by Check, P-Card, Wire and ACH
- Number of Controls Reviewed
- Cycle Time for the Remediation of Control Issues
- Number and Percentage of New Suppliers Established in the Supplier Master
- Number of Active Suppliers in the Supplier Master
- Number of Invalid Suppliers Identified

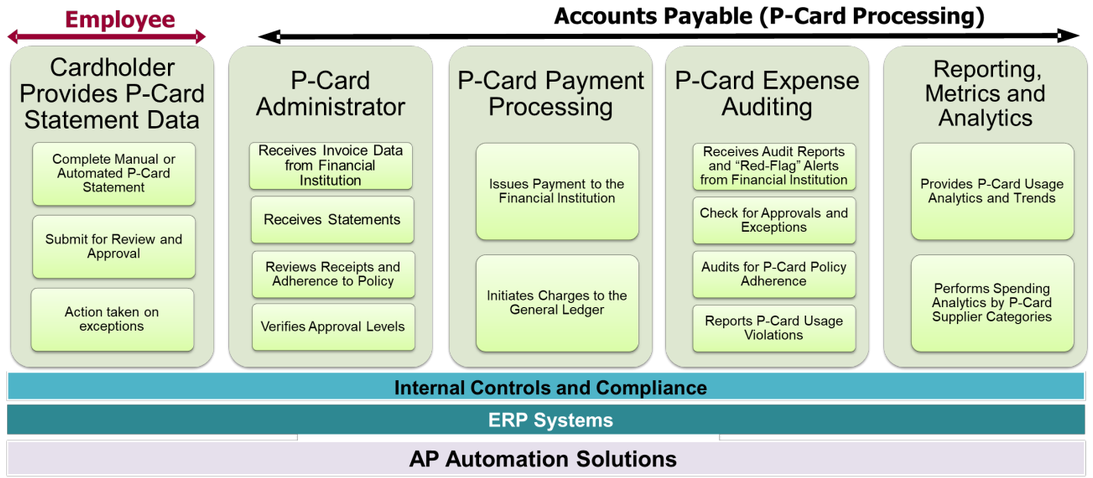
Invoice Process Metrics

Value and Number of Instances of Fraud
% of First Time Matches
% of On-Time Payments
% of Inventory Cycle Count Issues
% of Inventory Quality Issues
Number of Invalid Suppliers Identified
Number of Invoices Paid by Check, P-Card, Wire and ACH
Number and Value of Payment Issues Stopped per Payment Run
Value of Payment Issues by Payment Type
Number and Value of Pre-Close and Post Close Adjustments
Number and Value of Monthly Accruals
Number and Value of Outstanding Accruals by Reason



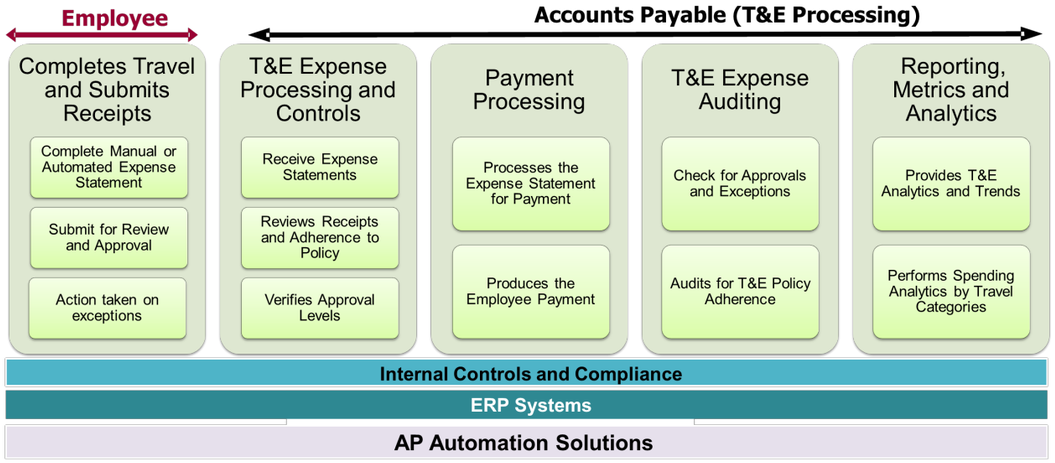
P-Card Process Metrics

Number and Value of P-Card Payment Issues and Errors Identified and Mitigated
Number and % of P-Card Issues as Compared to Supplier Payments Issued
Number and % of P-Card Violations
Number of P-Cards Issued
Number and % of P-Card Privileges Revoked
Number and % of P-Card Issues as Compared to Supplier Payments Issued
Number and Value of Pre-Close and Post Close Adjustments



T&E Process Metrics

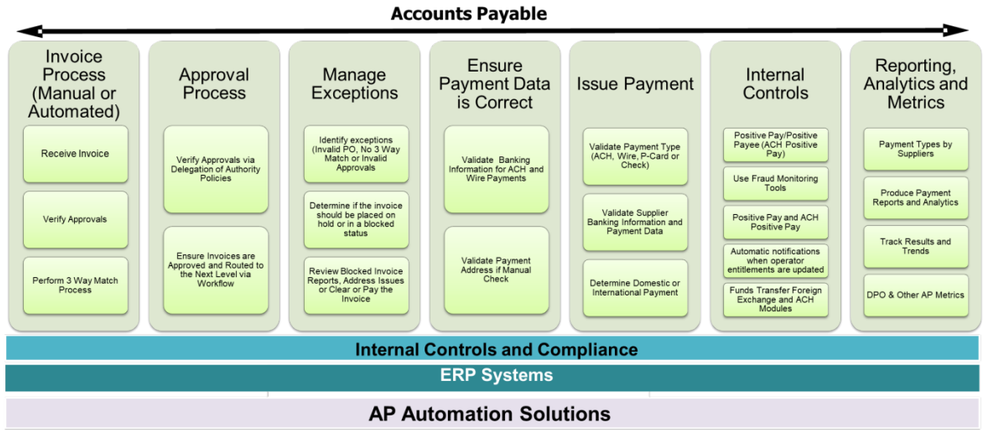
Number and Value of T&E Payment Issues and Errors Identified and Mitigated
Number and % of T&E Issues as Compared to Total T&E Payments Issued
Number and % of Corporate Card Violations
Number of Corporate Cards Issued
Number and % of Corporate Card Privileges Revoked
Number and Value of Pre-Close and Post Close Adjustments



23

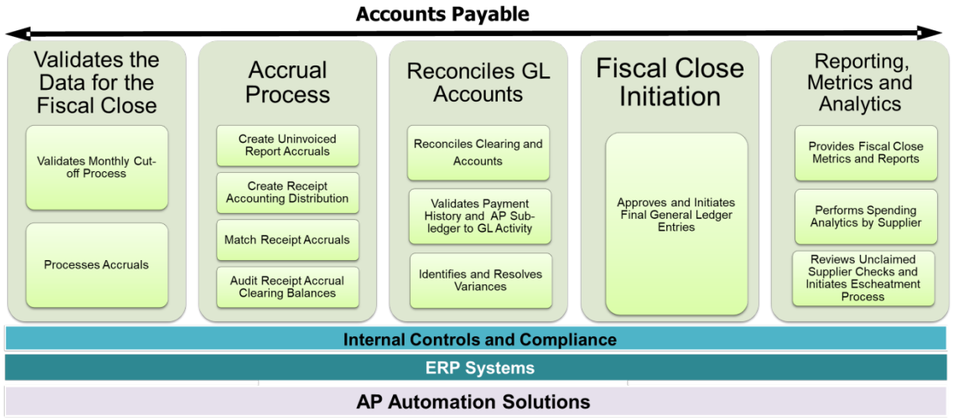
Payment Process Metrics

Number and Value of Payment Issues and Errors Identified and Mitigated
Value of Payment Issues by Payment Type
Number and Value of Payment Issues and Errors Identified and Mitigated
% and Number of Invoices Paid by Check, P-Card, Wire and ACH
Number and Value of Payment Issues and Errors Identified and Mitigated
Number and Value of Payment Issues Stopped per Payment Run
Number of Inactive Suppliers (With No Activity in the Last 18 Months)
Number and Value of Pre-Close and Post Close Adjustments
Number and Value of Monthly Accruals
Number and Value of Outstanding Accruals by Reason



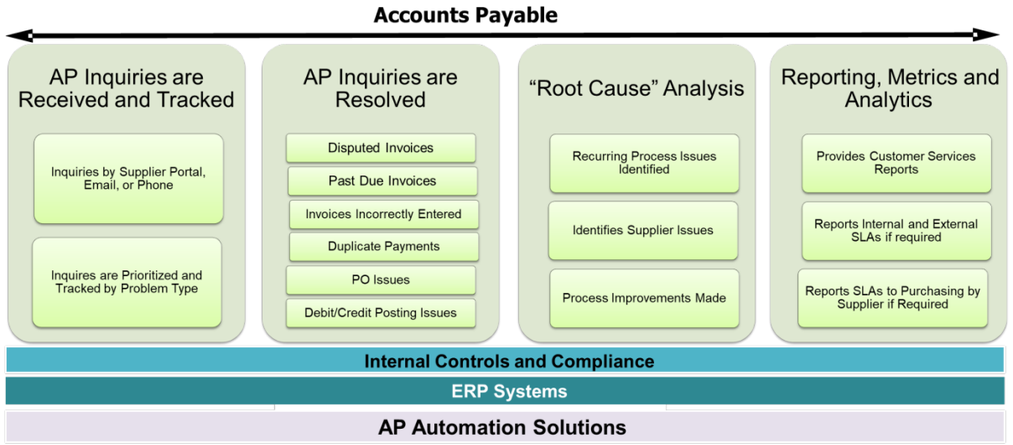
Accounting Process Metrics

Number of General Ledger Accounts Reconciled per Month
Value and Aging of Variances
Cycle Time to Complete the Close
Number and Value of Adjusting Entries
Number and Value of Pre-Close and Post Close Adjustments
Number and Value of Monthly Accruals
Number and Value of Outstanding Accruals by Reason
Number and Value of Unclaimed Supplier Payments
Number and Value of Escheatment Items by State



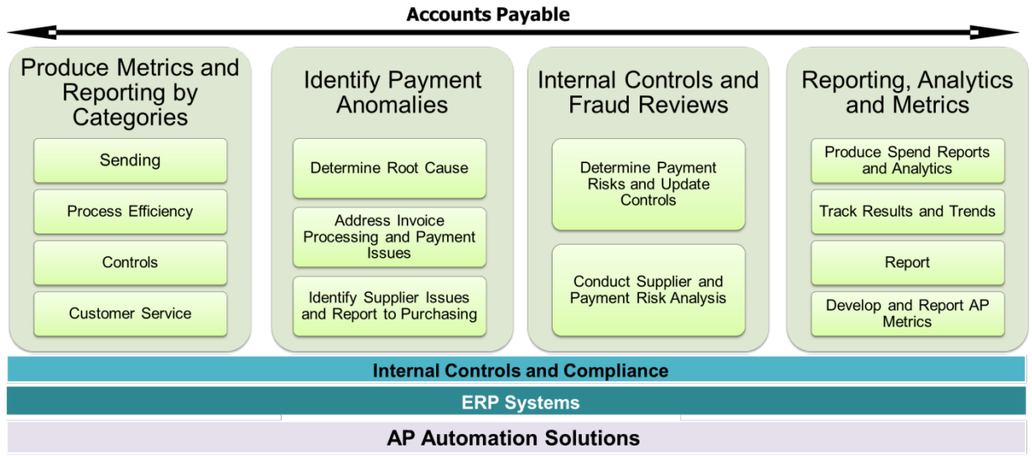
Customer Service Process Metrics

Number and Type of Customer Service Inquiries (Internal and External)
Source of Customer Service Inquiries
Value and % of Payment Issues Identified
Value and % of Payment Issues Corrected.
Payment Issues by Supplier
Cycle Time for Resolution
Adherence with Established SLAs
Number of AP Payment Processes Impacts Identified
Number of AP Process Impacts Implemented



Reporting, Analytics and Metrics
Process Metrics

Number and % of Payment Issues Identified and Stopped
Value of Cost Savings Opportunities Identified in the AP Process
Strategic Sourcing Cost Savings
% and Number of Fraudulent Payments
Number of Fraudulent Suppliers
% Adherence to AP Policies
% of eInvoices Processed
Cost per Invoice
Cycle Time to Process an Invoice
Purchase Order Workflow Defects
Unapproved Items in Purchase Order Workflow
Non-Purchase Order Invoices
% and Number of Fraudulent Payments



Polling Question 4

Do you plan to introduce automation to your AP processes?

a) No plans
b) Already have
c) Yes, within 1 year
d) Yes, within 2 years
e) Yes, 3 years or more

Thank You & Questions