Best Practices for Accounts Payable and Receivable Efficiency

Enterprise resource planning (ERP) system providers offer solutions that create an efficient and nearly paperless environment, particularly in accounts payable (A/P) and accounts receivable (A/R). Many organizations are dedicating a portion of their scarce IT resources to realize these opportunities.

US corporations are implementing best practices to further improve their A/P and A/R processing streams and increase efficiencies. Leveraging cross-departmental and IT efforts across the entire organization provides working capital benefits while achieving straight-through processing (STP) and efficiency gains that directly impact the bottom line.

As companies establish and operate standard processes such as customer self-invoicing, the benefit of the associated STP and efficiency gains extends into the supply chain, improving interaction with trading partners.

Electronification of Payables

Most major ERP system providers can enable A/P departments to function in a paperless environment, while providing for completely online receipt matching and approval processes. Today, best practices include:

• Shared services centers can lower costs by minimizing redundant labor and systems expenditures. They also can help an organization provide better service by reducing non-value-added processes and optimizing standardized procedures.

• Web invoicing allows your suppliers to log on to your ERP system via the Internet and submit an invoice electronically. This practice eliminates the need to receive and translate multiple invoice formats and provides an electronic solution for smaller suppliers that may not have the ability to produce an electronic invoice.

• Check services remain critical for added efficiency, although the United States is slowly moving toward a "checkless" society.

• Check print outsourcing streamlines the production and distribution of paper checks and remittance advices while expediting processing of these disbursements. Often, it is tied to the best practice of converting payments from checks to Automated Clearing House (ACH) transactions via one common payment process. Outsourcing checks provides benefits beyond secure storage of check stock, lower-
cost printing and elimination of physical signing of each item. This leads to the shifting of costs from a fixed to a variable basis.

- Positive pay check fraud prevention as a component of full account reconciliation has become a widely accepted practice. By adding this service, companies will receive images of exception items on a timely basis, which will help to minimize losses due to unauthorized issues, altered information or errors.

- Check imaging, the process of converting paper checks and invoices into an electronic representation of the original item, can be used to improve standard disbursements. Imaging can complement your ERP system usage by linking images to a purchase order or payment. This will allow quick retrieval of important data when suppliers look for a specific detail or check the status of an invoice, which may be information beyond the ERP's scope.

**Automating Receivables**

A/R is the second most liquid asset for most companies, and active A/R management can reduce working capital requirements. The following best practices complement ERP system capabilities:

- Automatic remittance reconciliation uploads data into your A/R system, saving time and reducing the chance of errors as it minimizes what needs to be keyed manually to identify the payment. It imports data entered in a lockbox for checks, along with other feeds from bank electronic payment systems for transmission of full details of incoming payments. The system matches incoming funds with outstanding invoices and closes them out as paid. By electronically linking remittance detail to the payment, near real-time availability of credit lines for customers is achieved and can result in increased sales.

- ACH direct debits, as well as ACH credits initiated by trading partners, allow for electronic collection of funds from your customers in a standard and predictable fashion. This provides automated reconciliation of the A/R process, and trading partners can benefit from substantially lower transaction costs. In addition, customers benefit from the superior ability of ACH systems to carry important remittance details. And they are protected from ACH direct debit fraud through the use of ACH debit blocks. This service, offered by many banks, allows for only certain originators to debit an account and limits the debit's amount.

- Accounts receivable check (ARC) conversion and Check 21 enhance the collection process through the benefits of "check electronification."

ARC involves the electronic conversion of retail lockbox paper checks into electronic ACH debits for funds collection. This practice speeds up and standardizes the funds collection process by eliminating more time-consuming physical exchanges of items and creating the ACH direct debit. With this new electronic collection instrument, which has a predetermined 1-2 day collection cycle, physical distances between the banks of the payer and receiver no longer are a concern.

Check 21 legislation offers another way to speed up collection for commercial checks as well as non-eligible retail checks. Check 21 provides that paper check deposits can be imaged and electronically delivered to a bank for collection via a substitute check. This will be replaced by electronic presentment in the future. In addition to the potential benefit of reducing information or remittance detail can be captured electronically and provided as an automated feed into your ERP system for auto-reconciliation.
Customer self-invoicing provides your customer base with the ability to create invoices based on existing data (e.g., a purchase order). The advantages of this practice include elimination of invoice creation and processing, reconciliation with purchase orders, prevention of processing errors and reduction in dispute management.

**Achieving Results**
Implementing best practices can help provide evidence of Sarbanes-Oxley compliance. Very few companies have perfected every aspect of A/P and A/R processing, but fine-tuning a number of these practices has yielded measurable working capital management improvement for many. The benefits don’t just accrue to companies that have invested in an ERP system. They also can be experienced by any company looking to achieve the efficiencies and STP benefits of a nearly paperless environment.