

REGAINING CONTROL: Managing the Three Cs of Controllers with AP Automation



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The accounts payable function has never been more important in the eyes of controllers.

The majority of controllers (58 percent) rate their AP department as having “high value” and being a “critical component of their business,” according to a 2014 study by the Institute of Finance and Management (IOFM). Another 22 percent of controllers surveyed by IOFM said that the AP department is “integral to some business units.”

This is a far cry from the traditional view of accounts payable as a tactical, back-office function.

Why the fundamental change? The accounts payable department is increasingly seen as a potential solution for controllers to achieve their three primary job responsibilities, the three Cs:

1. Cash: Controllers rank cash flow analysis as their most important job function, according to 2014 research by IOFM. In fact, most finance executives regularly track and/or report on cash flow against current and future expenses. A cash flow analysis provides organizations with visibility into their assured income, irrespective of market or economic conditions. Effectively managing cash flow ensures timely payments, eliminates late fees, increases investable income and return-ratios, and reduces the need for borrowing and corporate debt.

2. Control: Controllers must establish and maintain internal controls to support the financial infrastructure as effectively and cost-efficiently as possible. This starts with developing consistent processes for managing accounts payable transactions. Implementing better controls over accounts payable significantly reduces costs through reduced manual data entry, less paper handling and routing of documents, no paper filing and faster resolution of supplier inquiries. Controllers rank reducing costs and managing accounts payable as their second and third most-important functional priorities, according to a 2014 IOFM survey.

3. Compliance: Controllers must ensure that organizational policies and procedures are in compliance with professional standards and state and federal regulatory requirements. Even unintentional violations of laws, regulations and mandates can result in hefty fines and penalties, and significant reputational

harm. The stakes are just as high for security risks. Sixteen percent of businesses surveyed for IOFM’s 2013 AP Department Benchmarks and Analysis reported suffering check fraud within the past two years. The occurrence of check fraud is highest at larger businesses. And the problem may get worse. The growth of Automated Clearing House, cards and other electronic mechanisms for business-to-business payments is complicating the fraud mitigation techniques employed by businesses.

Accounts payable automation provides controllers with the visibility into financial information, consistent process controls, and working capital management tools to address these challenges.

The Challenge

Controllers increasingly recognize that they cannot achieve their cash, control and compliance objectives without automating their organization’s manual, paper-based accounts payable processes.

Poor cash management: Accounts payable departments are increasingly required to analyze financial data to arm the organization with insights to achieve strategic objectives such as improving net income and profit margins. This is a change from the highly structured, spreadsheet-driven financial reporting that has historically been required of accounts payable departments. However, 45 percent of controllers surveyed by IOFM in 2014 identified the lack of visibility into invoices and payables information as their top payables challenge. Another 42 percent of controllers pointed to difficulty handling, managing and finding invoices as their biggest payables challenge. As a result, 19 percent of senior finance executives cannot effectively manage cash according to current needs, Aberdeen Group found. Managing working capital is difficult in a manual, paper-based environment because: essential information is not captured, data is poorly organized, information is not timely, systems are not well-integrated, and decision-makers do not have access to key variables. Additionally, the long approval and exceptions cycles in a manual, paper-based accounts payable environment result in late-penalties and fewer opportunities to capture early-payment discounts. Sixty-eight percent of organizations

surveyed by PayStream Advisors in 2014 identified manual invoice routing as the top reason for late payments and lost discounts, while 58 percent of those surveyed said lengthy approval cycles was the biggest cause of late payments and lost discounts. The lack of visibility in a manual, paper-based accounts payable environment also makes it difficult to see all available discounts. These are reasons why only 29 percent of organizations “always” capture available early-payment discounts, according to PayStream Advisors’ *2014 Invoice Workflow Automation Benchmark Report*. It is no wonder that 68.9 percent of controllers surveyed by IOFM indicated that improving visibility into cash flow and cash management was among their priorities for 2015.

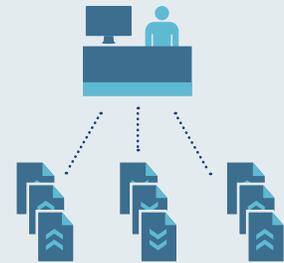
Improving visibility into cash flow and operational performance was the top finance and administration priority of controllers for 2015, according to a survey conducted by IOFM.



Poor operational control: It is nearly impossible to implement effective controls in a manual, paper-based environment. Controllers view accounts payable as the most manual and paper-intensive finance and administration function, and the one that requires the most time and effort, IOFM found in a 2014 study. The root of the problem is that the average organization receives 74 percent of its invoices in paper, e-mail, PDF, or fax format, according to Ardent Partners. Receiving invoices as an e-mail, PDF, or fax is no better than paper, unless an automated solution is in place to automatically identify and extract data and convert it to a digital format. Otherwise, information needs to be manually keyed, and paper documents need to be physically routed, stored and maintained. Unfortunately, only one in four organizations has highly automated processes with fully optimized systems to manage invoice processing efficiently, according to MasterCard. In many organizations, paper invoices are handled multiple times during the approval process and are frequently lost or pushed to the bottom of an approver’s “in-box.” As a result, more than three-quarters of senior finance executives surveyed by CFO Research said their financial operations rely on a considerable amount of manual intervention. For instance, only 15 percent of organizations pay more than 75 percent of their invoices electronically, according to PayStream Advisors’ *2014 Invoice Workflow Automation Benchmark Report*. Thirteen

percent of the organizations surveyed do not pay any invoices electronically. Against this backdrop, 63 percent of controllers surveyed by IOFM said that accounts payable is a priority for improvement in 2015, and nearly two-thirds of them reported that accounts payable will receive additional investment for process improvement projects in 2015. Forty-four percent of organizations have set a goal of lowering their invoice processing costs, Aberdeen Group reports.

Automated accounts payable solutions improve operational control by: eliminating the cost of handling, storing, maintaining and retrieving paper documents, preventing duplicate payments and late-payment penalties, and eliminating the chances of lost, misplaced, or stolen invoices.



Onerous compliance and security processes:

Ensuring compliance with laws, regulations and mandates is a major responsibility for controllers, especially in light of the risk of incurring significant penalties and fines for even unintentional errors. Making matters worse, crooks may be sneaky, tech-savvy entities in proverbial black jumpsuits stealing financial information from across the globe, or employees who have the opportunity to manipulate manual processes to steal information and/or money and cover their tracks. This is why audit and compliance preparedness is the most important metric to accounts payable departments – topping critical measures such as error rates, staff productivity, Days Payables Outstanding (DPO), invoices paid on time, and invoice processing costs, according to IOFM’s *2015 AP Automation Study*. Senior finance executives surveyed by IOFM believe that compliance and risk management is the fourth most-important finance and administration function after cash flow analysis, reducing operational costs, and accounts payable and accounts receivable transaction processing. But ensuring compliance in a manual, paper-based environment is a tall order. Manual, paper-based accounts payable processes make it extremely difficult to:

- Track invoice history and approvals
- Ensure consistent adherence to approval policies and separation of duties guidelines

- Safeguard chain of custody
Prevent unauthorized access to sensitive data (such as banking information)
- Readily provide all of the information required for audits
- Prevent documents from being discarded or destroyed prematurely

Moreover, in a manual environment, staff can back-date documents, make unauthorized payments, or create fake invoice authorizations. Six percent of senior finance executives cite regulatory compliance as the accounts payable task that they would most like to go away, according to IOFM's *2013 AP Department Benchmarks and Analysis*. Senior finance executives rank audits and tax reporting as the second-most manual and paper-intensive finance and administration function, trailing only accounts payable processing, IOFM's research found. It is for these reasons that 62 percent of CFOs in best-in-class organizations identify compliance and risk mitigation among their top priorities, Aberdeen Group finds.

can capture header and line-item information, depending on pre-defined business rules, and automatically send an electronic acknowledgement to the supplier that submitted the invoice. The solution then matches and links all documents related to a transaction, from purchase order to invoice, and electronically appends a general ledger (GL) code to the documents for posting to an enterprise resource planning (ERP) system such as Microsoft Dynamics or NetSuite.

Intelligent workflow: Document management solutions automatically route invoices to the appropriate staff for review and approval based on defined business rules. Workflows can be adjusted depending on the priority of a document, staff workloads and time-in-queue.

End-to-end monitoring: Document management solutions enable users to monitor processes end-to-end, in real-time, eliminating the reporting "blackouts" that are common in a paper-based environment. Web portals allow authorized internal and external stakeholders to view documents and status updates online, reducing inbound inquiries to front-line payables staff. Managers also can see the status of each document to identify bottlenecks or other issues.

Integration with legacy systems: Document management solutions can fully integrate with legacy systems such as ERP or GL solutions, eliminating the need for staff to learn a new system or rekey data into back-end systems. Integrating a document management system with an ERP or GL system also provides consolidated access to all financial documents – indexed, cross-referenced and organized by transaction "folder" – according to a company's standard business processes.

19%
of businesses surveyed by IOFM in 2015 cited compliance, control and security concerns among their top accounts payable challenges.



11%
of those surveyed by IOFM identified compliance and recordkeeping as their department's "greatest pain."



The Solution

Controllers increasingly recognize that paper-based accounts payable processes are a significant obstacle to achieving their cash, control and compliance objectives. As a result, more controllers are pushing their organizations to deploy document management solutions with four key capabilities:

Fully automated document capture: Document management solutions use optical character recognition (OCR) technology to automatically capture data from invoices and other payables documents that arrive in paper or electronic format. The technology

The Benefits

Document management technology addresses the challenges of a paper-based accounts payable environment, while enabling controllers to achieve their cash, control and compliance objectives.

Enhanced cash management: Forty-one percent of senior finance executives cite improved visibility into invoices and payables information as the biggest benefit of accounts payable automation, topping all other benefits, including lower invoice-processing costs and fraud mitigation, according to a 2014 survey conducted by IOFM. In fact, 32 percent of senior finance executives surveyed by CFO Research in 2015

said their organization achieved better working capital and cash management through financial operations automation. With an automated accounts payable solution, data captured from current and historical transactions can be used to produce budgets and forecasts with far greater accuracy. Dashboards with configurable, real-time charts and graphs enable controllers to proactively monitor:

- Upcoming invoice due-dates
- Potential bottlenecks
- Budget variances and maverick spend
- Purchasing trends
- Contract and supplier issues
(e.g. underperforming suppliers)
- Opportunities to negotiate more favorable contract terms

Best-in-class companies have more than four times the rate of visibility into overall cash flow on a daily basis, compared to average companies, according to Aberdeen Group.



Dashboards track invoice amounts and liabilities for any period of time (daily, weekly or monthly). Users can click on the charts and graphs displayed on the dashboards to instantly drill-down into the individual invoices represented in the information. Automation also facilitates easy and accurate accrual reporting by delivering visibility into all invoices in the workflow, quickly summarizing liability by account. Forty percent of best-in-class financial operations have the ability to measure cash flow performance across their organization, according to Aberdeen Group's *Beyond Payables* report. And directly integrating automated accounts payable solutions with ERP platforms, like Microsoft Dynamics or NetSuite, allows controllers to view documents and supporting information while still working in the ERP system. Automation also assists with cash management by resolving disputes more quickly through online collaboration and instant access to data; streamlining the month-end accounting close and financial reporting process; and accelerating invoice approval cycle times to reduce late payment penalties and create more early-payment discount opportunities. IOFM research shows that moving to higher levels of automation clears the way for organizations to pay a higher percentage

of invoices within the discount period, creating an opportunity for compelling annual returns: accounts payable departments that take advantage of just a discount term of 1/10 net 30 earn an annualized 18 percent return. Not surprisingly, 17 percent of controllers surveyed by IOFM indicated that capturing more early-payment discounts was their top finance and administration priority for 2015. Additionally, automation provides controllers with access to financial information from anywhere, at any time, using a mobile device. It is for these reasons that solutions for enhancing financial visibility top the list of technologies controllers planned to deploy in 2015. Sixty percent of controllers surveyed by IOFM indicated that electronic approval and exceptions workflows were among their technology initiatives for 2015, topping all other technologies. Forty-four percent of controllers said that deploying an image repository for document archival and retrieval was among their technology priorities.

Strong operational control: Thirty-nine percent of senior finance executives surveyed by CFO Research in 2015 identified improved business process execution among the most important benefits realized by automating financial operations. Thirty-one percent of those surveyed said their organization reduced its financial operations costs through automation. Automating accounts payable with consistent internal processes and controls accelerates invoice approval cycles, streamlines exceptions resolution, helps ensure the accuracy of supplier payments, and enables buyers to more effectively manage supplier inquiries. Real-time dashboards automatically alert users to bottlenecks and invoices that are approaching their due-date. Accounts payable solutions automatically post matched invoices, eliminating the need for operators to input invoice data into an organization's ERP system, and the risk of manual data entry errors. Best-in-class accounts payable departments automatically post more than 80 percent of their invoices without human operator intervention (commonly referred to as straight-through processing), reports Stamford, CT-based Gartner. Automated solutions also group approved invoices based on a supplier's value to the organization, the invoice amount, available early-payment discounts, and the overall volume of payments, to help ensure prompt payment, contract compliance, and strong supplier relationships. Accumulated reports track overall processing efficiency, including average invoice approval cycle times. All of these improvements reduces overhead and frees staff to focus on strategic activities while allowing the organization to reinvest savings and high-value business support and analysis.

It costs best-in-class organizations an average of \$2.20 to process an invoice, while all other companies pay an average of \$19.10 to process an invoice, according to Ardent Partners. Moreover, the Silver Spring, MD-based Association for Image and Information Management (AIIM) found that 38 percent of automated payables departments process at least 50 percent of their transactions straight-through, without human operator intervention. Half of all businesses that have automated accounts payable achieved payback in nine months or less, according to AIIM's research. Twenty-two percent of organizations surveyed by AIIM achieved payback on their automated accounts payable solution in just six months. These are some of the reasons that 60 percent of organizations are currently using, deploying or considering implementing an automated invoice processing solution, according to PayStream Advisors' *2014 Invoice Workflow Automation Benchmark Report*.

29%

of businesses reduced their invoice-processing costs in half as a result of automating accounts payable, according to AIIM.



Streamlined compliance and security:

Automation provides businesses with a set of business controls to dramatically reduce risk of compliance violations and theft. For instance, automation creates well-defined, consistent processes with clear and systematic assignment of duties. Enforcing consistent business practices reduces process variance and associated risk. Automation also manages document retention policies, legal holds and disposition workflows. The controls and configurable workflows provided by automated solutions enables organizations to adhere to legal and internal document retention policies by eliminating the risk of deleting or altering an invoice before deadlines set by regulators. As compliance requirements may vary by organization, industry or other factors, automated accounts payable solutions allow businesses to configure their own workflow rules and retention policies. Additionally, automation provides a complete audit trail for all activities that occur during the invoice processing lifecycle, enabling managers to quickly identify staff involved in any suspicious activities. Detailed tracking of invoice processes also helps eliminate the back-dating of invoices, unauthorized payments, and fake authorizations. Automation also enables organizations to easily segregate duties, such as invoice approval

and payment initiation, and restrict access to functions such as the access of sensitive information. Configurable alerts automatically notify managers when pre-defined data fields have been altered (e.g. payee), or when irregularities are detected. Electronically storing images and data eliminates the chances of lost or missing invoices, ensuring the integrity of records. Automation reduces the incidence of lost invoices by 63 percent, finds PayStream Advisors. Similarly, electronic storage of images and data enables organizations to rapidly audit an entire repository. And users of automated solutions can provide auditors with direct view-only user access to archived images and data, eliminating the need for accounts payable staff to gather and photocopy documents. Finally, automated accounts payable solutions can automatically generate tax reports based on the data they track on how much each supplier is paid. It is for these reasons that organizations surveyed by AIIM cited improved tax and regulatory compliance among the top reasons to automate accounts payable processing.

Automated accounts payable solutions promote accountability by providing detailed auditable history to monitor security and employee activities.



Each of these benefits is critical to the primary responsibilities of controllers. Together, they help organizations achieve critical strategic objectives. For instance, 33 percent of senior finance executives surveyed by CFO Research in 2015 said their organization increased net income and profit margins as a result of automating financial processes. In a global economic environment where revenue growth may be hard to come by, improving income and profit margins is critical.

Case Study

Automation is helping Chartered Professional Accountants of Ontario (CPAO) increase document control and compliance. The organization's mission is to protect and enforce the highest professional and ethical standards, to ensure that chartered accountants are recognized as Canada's preferred financial leaders and advisors, and to support its members in their efforts to enhance their skills.

As part of its regulatory mandate, CPAO tracks, records and manages nearly 200,000 certifications, university

transcripts, regulatory standards and other documents on behalf of its 32,000 members.

Before deploying a paperless document management solution, the individual records that CPAO manages were stored as images on more than 900 CD-ROMs. Storing the images on CD-ROMs was costly, took up a considerable amount of space, and made it difficult for staff to quickly access vital information. Automation enables staff to instantly retrieve images based on a keyword search.

Conclusion

A controller's job function depends on the three C's: cash, control and compliance. More controllers recognize that automating accounts payable processing goes a long way to achieving these critical objectives. Automated solutions such as document management technology provide controllers with the tools to enhance working capital management, ensure consistent controls for cost-effective and efficient processes, and streamline compliance and security. Together, these benefits transform accounts payable from a tactical back-office function, to a driver of strategic objectives.

About Metafile

Founded in 1979 and headquartered in Rochester, Minn., Metafile is an established, independent and efficient provider of paperless document management software applications supporting accounts payable, accounts receivable and human resources departments in middle-market and large businesses nationwide. More than 3,500 organizations have translated Metafile's content management solutions into enterprise-wide value and a competitive advantage. MetaViewer is Metafile's flagship paperless document management solution, offering paper and electronic invoice capture, web-based workflow, two and three-way matching, real-time graphical visibility and full ERP integration. Today, more than 15,000 financial professionals worldwide are efficiently processing more than 15 million paperless transactions per week with the MetaViewer solution. For more information visit www.metaviewer.com.

About IOFM

The Institute of Finance and Management (IOFM) is the leading organization providing training, education and certification programs specifically for professionals

in Accounts Payable, Procure-to-Pay, Accounts Receivable and Order-to-Cash, as well as key tax and compliance resources for Global and Shared Services professionals, Controllers and their F&A teams.

IOFM has certified nearly 20,000 financial operations professionals worldwide through its four certification programs. These programs include Accredited Payables Specialist or Manager (U.S. and Canadian specific versions available), Accredited Receivables Specialist or Manager and Certified Professional Controller. The globally recognized AP & AR certifications are available in English, Simple Chinese and Spanish.

IOFM's membership networks, the AP & P2P Network (www.app2p.com) and AR & O2C Network (www.tarn.com), feature industry research and best practices, metrics and benchmarking data, policies, case studies, tools, templates, and critical compliance and corporate governance resources. The Institute also produces on-demand e-learning resources including video trainings and web-based seminars.

IOFM hosts industry-leading conferences designed to facilitate continuing education and peer networking. These events include the Accounts Payable and Procure-to-Pay Conference and Expo (Spring and Fall), and the Accounts Receivable & Order-to-Cash Conference.

With a universe of over 100,000 financial operations professionals, growing certification and membership programs, and a keen understanding of the issues and content needs critical to the profession, IOFM is the trusted source of information in the rapidly evolving field of financial operations.