

# Key Practices Help AP Departments Improve Efficiency and Cost Effectiveness

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For today's finance staff members who are challenged to improve the efficiency of their operations — as well as the strength of their bottom lines — an often-overlooked revenue source may reside in the accounts payable (AP) department.

According to the Economist Intelligence Unit's (EIU) "Future Finance" survey (2005), for example, some organizations spend as much as \$40 to process an invoice — a fact unknown to more than a third of senior executives. Studies like this one portray the accounts payable department as a potential well of opportunity — offering organizations a chance to not only save money through refined processes, but potentially helping to mitigate fraud and risk, boost productivity, improve recordkeeping and improve planning and cash forecasting.

Though the task of streamlining what may be an intricate or overgrown system may seem daunting, improving AP processes does not have to be an all-or-nothing proposition. In fact, small changes may net big results. According to Mellon AP experts, saving \$100,000 in the AP shop translates to \$400,000 that companies do not have to make in revenue. To help to increase the efficiency of AP processes without totally overhauling the AP system, Mellon has identified four key practices every company should strongly consider.

## **Key Practice #1: Convert paper invoices to electronic documents.**

At many organizations, 40 percent of invoices are already late by the time they get to the AP department. However, companies that route invoices electronically can speed the approval process, thus reducing the potential for late fees and perhaps even earning prompt-pay discounts.

Using OCR (Optical Character Recognition) and front-end document imaging technology to scan invoices as they arrive, SourceNet Solutions (SourceNet) — Mellon's finance and accounting services arm — provides organizations with a Web-based warehouse of invoice data and images. This advanced technology may promote other efficiencies as well, such as improving your staff's ability to search and retrieve invoice information, simplifying exception management processing and extracting data to track performance (e.g., average processing time).

## **Key Practice #2: Work with vendors to electronically receive invoices and make payments.**

Taking paper out of the AP process is an excellent way to improve efficiency. Of AP pros surveyed by IOMA (Institute of

Management & Administration) on the best ways to cut AP costs, one third use imaging, electronic invoicing and/or electronic payments. An Electronic Invoice Presentment & Payment (EIPP) solution may help. EIPP can allow you to accept invoices via file transmission, the Internet or e-mail and also enable you to make payments electronically with ACH (automated clearing house) debits.

Using EIPP, SourceNet helps many organizations to accelerate the invoice receipt-to-pay cycle, reduce processing costs, strengthen vendor relationships, earn prompt-pay discounts and improve cash forecasting.

## **Key Practice #3: Limit fraud with Positive Pay and Positive Payee.**

While most organizations use controlled disbursement services, many could be doing even more to prevent check fraud — especially as legislation, such as the Check Clearing for the 21st Century Act (Check 21), presents new and different types of opportunities for fraudulent activity. Companies can advance their efforts to reduce cash losses due to fraud and save time spent tracking potential losses by implementing services such as those below:

- Mellon's Positive Pay service matches check issue information supplied by your company with MICR (magnetic ink character recognition) line data captured during check processing. Items that do not match are flagged as potentially fraudulent, preliminarily researched and if deemed suspect, included on a suspect report. You can make pay/return decisions based on this report. An end-of-day transmission also lists all items paid or returned, enabling you to update your AP, general ledger and online inquiry systems daily.
- Mellon's Positive Payee<sup>SM</sup> service identifies potential alterations to a check's payee line by comparing the payee name from the images of each check, character by character, with payee information gathered from your check issue files. Suspicious items are referred for a pay/return decision. Items that you opt to return with altered payee lines result in a credit on the day following return.

## **Key Practice #4: Pay with purchasing cards.**

Of AP pros surveyed by IOMA on best ways to cut AP costs, the top answer was purchasing cards. Arming employees with "P-Cards" may streamline the procurement process by reducing the time-consuming, paper-intensive process of completing forms, obtaining authorizations, cutting checks and reconciling

invoices. The data collected from P-Cards also enables organizations to improve tracking, better monitor purchases and better negotiate with vendors.

To achieve even greater efficiency, many companies outsource the administration of their purchasing card programs. By letting someone else track spending, analyze and audit statements, and manage new card applications, organizations can reduce man-hours and reallocate resources — time, money, people — to other tasks.

Mellon's Corporate Card services include cost-reducing solutions for handling all of a company's purchasing, fleet, and travel and entertainment needs. Mellon offers individual

Purchasing, Fleet, and Travel and Entertainment Cards, as well as a Multi Card that integrates card functions for maximum efficiency. *(Please see the article titled "Getting the Most From Your Purchasing Card Program" on page 18 for more information on Mellon's Purchasing Card program.)*

By improving on a few key aspects of your organization's AP process, efficiencies — and potential savings — may be just around the corner.

*For more information on the Mellon GCM services mentioned above — or any of our comprehensive suite of cash management solutions, contact our cash management experts at 1 800 424-3004 or send an e-mail to us at [gcm\\_direct\\_pgh@mellon.com](mailto:gcm_direct_pgh@mellon.com).*

**Mellon's Positive Payee<sup>SM</sup> Service — a solution designed to help identify potential alterations to a check's payee line — helped Mellon Global Cash Management customers detect \$4.5 million in potential check fraud in 2005, and \$9 million since its inception in early 2002.**

*Greater Data Recognition and Analysis Now Possible*

## Expanded Account Reconciliation Features Aid Information Reporting

In our efforts to continually improve methods for customers to effectively manage their corporate cash, Mellon Global Cash Management (GCM) has recently upgraded select transmissions available via our Account Reconciliation (AR) service.

The enhancements include expanded report fields and transmission formats for the Monthly Reconciliation Transmission report and a new Outstanding Settlement Transmission option. With the enhancements, existing AR customers may now integrate or manipulate their account reconciliation data in either standard or CSV (Comma Separated Value) format to fit their individual reporting needs.

The Monthly Reconciliation Output transmission now features a four-digit status code in the transmission file to further identify each item in the compressed detail record. This allows users to incorporate information such as 'prior stop', 'with issue', 'current stale issue', etc., into their in-house systems for custom reporting, helping to analyze checking activity and identify areas to save on banking fees.

Additionally, both this standard Monthly Reconciliation Output transmission and the Monthly Output transmission with Mellon Positive Payee<sup>SM</sup>\* information are now available in CSV format

— in addition to our existing proprietary format. The CSV format provides additional flexibility to upload the reconciliation information into spreadsheets, ERP (Enterprise Resource Planning) accounting systems, or other in-house tools to more closely analyze reconciliation information.

We now also offer the Account Reconciliation Outstanding Settlement report via an electronic transmission file as well. Also available in CSV format, the Outstanding Settlement transmission allows customers to integrate the data currently provided on the Outstanding Settlement report, along with the detailed items, into spreadsheets, databases, ERP systems or other in-house tools to more effectively manage cash flow. This outstanding check data was previously only available in a combined reconciliation file or via a hard-copy report.

*For more information on these Account Reconciliation service upgrades, contact us at 1 800 424-3004 or e-mail us at [gcm\\_direct\\_pgh@mellon.com](mailto:gcm_direct_pgh@mellon.com).*

*\*Part of Mellon's comprehensive suite of Disbursement services, Mellon Positive Payee identifies potential alterations to a check's payee line by comparing a payee name from the image of the check with payee information gathered from the customer's issue file.*