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BEST PRACTICES

ACCOUNTING

Best

Practices

SIXTH EDITION

Steven M. Bragg





# **Accounting Best Practices**

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**Sixth Edition**

**Steven M. Bragg**



**WILEY**

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# About the Author

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**Steven Bragg, CPA**, has been the chief financial officer or controller of four companies, as well as a consulting manager at Ernst & Young and auditor at Deloitte & Touche. He received a master's degree in finance from Bentley College, an MBA from Babson College, and a bachelor's degree in economics from the University of Maine. He has been the two-time president of the Colorado Mountain Club and is an avid alpine skier, mountain biker, and certified master diver. Mr. Bragg resides in Centennial, Colorado. He has written the following books published by John Wiley & Sons:

*Accounting and Finance for Your Small Business*

*Accounting Best Practices*

*Accounting Control Best Practices*

*Accounting Policies and Procedures Manual*

*Billing and Collections Best Practices*

*Business Ratios and Formulas*

*Controller's Guide to Costing*

*Controller's Guide to Planning and Controlling Operations*

*Controller's Guide: Roles and Responsibilities for the New Controller*

*Controllershship*

*Cost Accounting*

*Essentials of Payroll*

*Fast Close*

*Financial Analysis*

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*GAAP Policies and Procedures Manual*

*Inventory Accounting*

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*Treasury Management*

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Steve issues an accounting best practices podcast, and posts many other accounting materials at [accountingtools.com](http://accountingtools.com).









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# Preface

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The accounting department is a cost center. It does not directly generate revenues, but, rather, provides a fixed set of services to the rest of the company, and is asked to do so at the lowest possible cost. Consequently, the accounting staff is called on to process transactions, write reports, create new processes, or investigate old ones—while doing so as an ever-shrinking proportion of total corporate expenses.

This cost-based environment is a very difficult one for most accountants, for their training is primarily in accounting rules and regulations, rather than in how to run a very specialized department in a cost-effective manner. They find a few ideas for improvements from attending seminars or perusing accounting or management magazines, but there is no centralized source of information for them to consult that itemizes a wide array of possible improvements. Hence the need for the sixth edition of *Accounting Best Practices*, which contains 406 accounting best practices, of which 57 are new to this edition.

This book is compiled from the author's lengthy experience in setting up and operating a number of accounting departments, as well as by providing consulting services to other companies. Accordingly, it contains a blend of best practices from a wide variety of accounting environments, ranging from small partnerships to multibillion-dollar corporations. This means that not all of the best practices described within these pages will be useful in every situation—some are designed to provide quick and inexpensive, incremental improvements, while others are groundbreaking events requiring six-figure investments (or more) and months of installation time. Consequently, each chapter includes a table that notes the ease, duration, and cost of implementation for every best practice within it. These tables separate best practices into a number of subcategories, and also contain a reference number that is useful for locating the main text for each best practice within the chapter. Also, a selection of best practices have an “Author's Choice” graphic posted next to them. These best practices are ones the author has found to be particularly effective in improving accounting operations. All best practices are also noted in summary form in Appendix A.

Although this book is the central source of best practices information for the accountant, there are several other books available that specialize in smaller niches within the accounting area. Each of these books contains many additional best practices not found in *Accounting Best Practices*. These include the author's *Inventory Best Practices* (John Wiley & Sons, 2004), *Billing and Collections Best Practices* (John Wiley & Sons, 2005), *Payroll Best Practices* (John Wiley & Sons, 2005), and *Fast Close*, 2nd Edition (John Wiley & Sons, 2009).

STEVEN M. BRAGG  
Centennial, Colorado  
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## Introduction

A chief executive officer (CEO) spends months deciding on a corporate strategy. The plan probably includes a mix of changes in products, customers, and markets, as well as demands for increased efficiencies or information in a number of existing areas. The CEO then hands off the plan to a group of managers who are quite capable of implementing many of the changes, but who scratch their heads over how to squeeze greater efficiencies or information out of existing departments in order to meet their strategic goals. This is where best practices come into play.

A best practice is really *any* improvement over existing systems, though some consultants prefer to confine the definition to those few high-end and very advanced improvements that have been successfully installed by a few world-class companies. This book uses the broader definition of any improvement over existing systems, since the vast majority of companies are in no position, in terms of either technological capabilities, monetary resources, or management skill, to make use of truly world-class best practices. Using this wider definition, a best practice can be anything that increases the existing level of efficiency, such as switching to blanket purchase orders, signature stamps, and procurement cards to streamline the accounts payable function. It can also lead to improved levels of reporting for use by other parts of the company, such as activity-based costing, target costing, or direct costing reports in the costing function. Further, it can reduce the number of transaction errors, by such means as automated employee expense reports, automated bank account deductions, or a simplified commission calculation system. By implementing a plethora of best practices, a company can greatly improve its level of efficiency and information reporting, which fits nicely into the requirements of most strategic plans.

One can go further than describing best practices as an excellent *contributor* to the fulfillment of a company's strategy, and even state that a strategy does not have much chance of success *unless* best practices are involved. The reason is that best practices have such a large impact on overall efficiencies, they unleash a large number of excess people who can then work on other strategic issues, as well as reduce a company's cash requirements, releasing more cash for investment in strategic targets. In addition, some best practices link company functions more closely together, resulting in better overall functionality—this is a singular improvement when a company is in the throes of changes caused by strategy shifts. Further, best practices can operate quite well in the *absence* of a

strategic plan. For example, any department manager can install a variety of best practices with no approval or oversight from above, resulting in a multitude of beneficial changes. Thus, best practices are a linchpin of the successful corporate strategy, and can also lead to improvements even if they are not part of a grand strategic vision.

The scope of this book does not encompass all of the best practices that a company should consider, only those used by the accounting department. This area is especially susceptible to improvement through best practices, since it is heavily procedure-driven. When there are many procedures, there are many opportunities to enhance the multitude of procedure steps through automation, simplification, elimination of tasks, error-proofing, and outsourcing. Thus, of all the corporate functions, this is the one that reacts best to treatment through best practices.

Chapter 2 covers a variety of issues related to the implementation of best practices, such as differentiating between incremental and reengineering changes, circumstances under which best practices are most likely to succeed, and how to plan and proceed with these implementations. Most important, there is a discussion of the multitude of reasons why a best practice implementation can fail, which is excellent reading prior to embarking on a new project, in order to be aware of all possible pitfalls. The chapter ends with a brief review of the impact of best practices on employees. This chapter is fundamental to the book, for it serves as the groundwork on which the remaining chapters are built. For example, if you are interested in modifying the general ledger account structure for use by an activity-based costing system, it is necessary to first review the implementation chapter to see how any programming, software package, or interdepartmental issues might impact the project.

Chapters 3 through 18 each describe a cluster of best practices, with a functional area itemized under each chapter. For example, Chapter 9 covers a variety of improvements to a company's commission calculation and payment systems, while Chapter 18 is strictly concerned with a variety of payroll-streamlining issues related to the collection of employee time information, processing it into payments, and distributing those payments. Chapter 14 is a catchall chapter. It covers a variety of general best practices that do not fit easily into other, more specific chapters. Examples of these best practices are the use of process-centering, on-line reporting, and creating a contract-terms database. Chapters 3 through 18 are the heart of the book since they contain information related to over 400 best practices.

For Chapters 3 through 18, there is an exhibit near the beginning that shows the general level of implementation cost and duration for each of the best practices in the chapter. This information gives the reader a good idea of which best practices to search for and read through, in case these criteria are a strong consideration. For each chapter, there are a number of sections, each one describing a best practice. There is a brief description of the problems it can fix, as well as notes on how it can be implemented, and any problems one may encounter while doing so. Each chapter concludes with a section that describes the impact of a recommended



mix of best practices on the functional area being covered. This last section almost always includes a graphical representation of how certain best practices impact specific activities. Not all the best practices in each chapter are included in this graphic, since some are mutually exclusive. This chapter layout is designed to give the reader a quick overview of the best practices that are most likely to make a significant impact on a functional area of the accounting department.

Appendix A lists all of the best practices in each of the preceding chapters. This list allows the reader to quickly find a potentially useful best practice. It is then a simple matter to refer back to the main text to obtain more information about each item.

This book is designed to assist anyone who needs to either improve the efficiency of the accounting department, reduce its error rates, or provide better information to other parts of a company. The best practices noted on the following pages will greatly assist in attaining this goal, which may be part of a grand strategic vision or simply a desire by an accounting manager to improve the department. The layout of the book is extremely practical: to list as many best practices as possible, to assist the reader in finding the most suitable ones, and to describe any implementation problems that may arise. In short, this is the perfect do-it-yourself fix-it book for the manager who likes to tinker with the accounting department.



# How to Use Best Practices

This chapter is about implementing best practices. It begins by describing the various kinds of best practices and goes on to cover those situations where they are most likely to be installed successfully. The key components of a successful best practice installation are also noted. When planning to add a best practice, it is also useful to know the ways in which the implementation can fail, so there is a lengthy list of reasons for failure. Finally, there is a brief discussion of the impact of change on employees and the organization. Only by carefully considering all of these issues in advance can one hope to achieve a successful best practice implementation that will result in increased levels of efficiency in the accounting department.

### **Types of Best Practices**

This section describes the two main types of best practices, each one requiring considerably different implementation approaches.

The first type of best practice is an incremental one. This usually involves either a small modification to an existing procedure or a replacement of a procedure that is so minor in effect that it has only a minimal impact on the organization, or indeed on the person who performs the procedure. The increased level of efficiency contributed by a single best practice of this type is moderate at best, but this type is also the easiest to install, since there is little resistance from the organization. An example of this type of best practice is using a signature stamp to sign checks (see Chapter 3); it is simple, cuts a modest amount of time from the check preparation process, and there will be no complaints about its use. However, only when this type of best practice is used in large numbers is there a significant increase in the level of efficiency of accounting operations.

The second type of best practice involves a considerable degree of reengineering. This requires the complete reorganization or replacement of an existing function. The level of change is massive, resulting in employees either being laid off or receiving vastly different job descriptions. The level of efficiency improvement can be several times greater than the old method it is replacing. However, the level of risk matches the reward, for this type of best practice meets with enormous resistance and consequently is at great risk of failure. An example of this type of best practice is eliminating the accounts payable department in favor of

having the receiving staff approve all payments at the receiving dock (see Chapter 3); it involves the elimination of many jobs and is an entirely new approach to paying suppliers. A single best practice implementation of this sort can reap major improvements in the level of accounting efficiency.

Thus, given the considerable number and size of the differences between the incremental and reengineering best practices, it is necessary to first determine into which category a best practice falls before designing a plan for implementing it. Given the difficulty of implementation for a reengineering project, it may even be necessary to delay implementation or intersperse a series of such projects with easier incremental projects in order to allow employees to recover from the reengineering projects.

### The Most Fertile Ground for Best Practices

Before installing any best practice, it is useful to review the existing environment to see if there is a reasonable chance for the implementation to succeed. The following bullet points note the best environments in which best practices not only can be installed, but also have a fair chance of continuing to succeed:

- *If benchmarking shows a problem.* Some organizations regularly compare their performance levels against those of other companies, especially those with a reputation for having extremely high levels of performance. If there is a significant difference in the performance levels of these other organizations and the company doing the benchmarking, this can serve as a reminder that continuous change is necessary in order to survive. If management sees and heeds this warning, the environment in which best practices will be accepted is greatly improved.
- *If management has a change orientation.* Some managers have a seemingly genetic disposition toward change. If an accounting department has such a person in charge, there will certainly be a drive toward many changes. If anything, this type of person can go too far, implementing too many projects with not enough preparation, resulting in a confused operations group whose newly revised systems may take a considerable amount of time to untangle. The presence of a detail-oriented second-in-command is very helpful for preserving order and channeling the energies of such a manager into the most productive directions.
- *If the company is experiencing poor financial results.* If there is a significant loss, or a trend in that direction, this serves as a wake-up call to management, which, in turn, results in the creation of a multitude of best practices projects. In this case, the situation may even go too far, with so many improvement projects going on at once that there are not enough resources to go around, resulting in the ultimate completion of few, if any, of the best practices.

- *If there is new management.* Most people who are newly installed as managers of either the accounting department or (better yet) the entire organization want to make changes in order to leave their marks on the organization. Though this can involve less effective practice items like organizational changes or a new strategic direction, it is possible that there will be a renewed focus on efficiency that will result in the implementation of new best practices.

In short, as long as there is a willingness by management to change and a good reason for doing so, then there is fertile ground for the implementation of a multitude of best practices.

## **Planning for Best Practices**

A critical issue for the success of any best practices implementation project is an adequate degree of advance planning. The following bullet points describe the key components of a typical best practices implementation plan:

- *Capacity requirements.* Any project plan must account for the amount of capacity needed to ensure success. Capacity can include the number of people, computers, or floor space that is needed. For example, if the project team requires 20 people, then there must be a planning item to find and equip a sufficient amount of space for this group. Also, a project that requires a considerable amount of programming time should reserve that time in advance with the programming staff to ensure that the programming is completed on time. Further, the management team must have a sufficient amount of time available to properly oversee the project team's activities. If any of these issues are not addressed in advance, there can be a major impact on the success of the implementation.
- *Common change calendar.* If there are many best practices being implemented at the same time, there is a high risk that resources scheduled for one project will not be available for other projects. For example, a key software developer may receive independent requests from multiple project teams to develop software, and cannot satisfy all the requests. To avoid this, one should use a single change calendar, so that planned changes can be seen in the context of other changes being planned. The calendar should be examined for conflicts every time a change is made to it, and also be made available for general review, so that all project teams can consult it whenever needed.
- *Contingencies.* Murphy's Law always applies, so there should be contingencies built into the project plan. For example, if the project team is being set up in a new building, there is always a chance that phone lines will not be installed in time. To guard against this possibility, there should be an additional project step to obtain some cellular phones, which will supply the team's communications needs until the phone lines can be installed.

- *Dependencies.* The steps required to complete a project must be properly sequenced so that any bottleneck steps are clearly defined and have sufficient resources allocated to them to ensure that they are completed on time. For example, a project planning person cannot set up the plan if there is no project planning software available and loaded into the computer. Consequently, this step must be completed before the planning task can commence.
- *Funding requirements.* Any project requires some funding, such as the purchase of equipment for the project team or software licenses or employee training. Consequently, the project plan must include the dates on which funding is expected, so that dependent tasks involving the expenditure of those funds can be properly planned.
- *Review points.* For all but the smallest projects, there must be control points at which the project manager has a formal review meeting with those people who are responsible for certain deliverables. These review points must be built into the plan, along with a sufficient amount of time for follow-up meetings to resolve any issues that may arise during the initial review meetings.
- *Risk levels.* Some best practices, especially those involving a large proportion of reengineering activities, run a considerable risk of failure. In these cases, it is necessary to conduct a careful review of what will happen if the project fails. For example, can the existing system be reinstated if the new system does not work? What if funding runs out? What if management support for the project falters? What if the level of technology is too advanced for the company to support? The answers to these questions may result in additional project steps to safeguard the project, or to at least back it up with a contingency plan in case the project cannot reach a successful conclusion.
- *Total time required.* All of the previous planning steps are influenced by one of the most important considerations of all—how much time is allocated to the project. Though there may be some play in the final project due date, it is always unacceptable to let a project run too long, since it ties up the time of project team members and will probably accumulate extra costs until it is completed. Consequently, the project team must continually revise the existing project plan to account for new contingencies and problems as they arise, given the overriding restriction of the amount of time available.

The elements of planning that have just been described will all go for naught if there is not an additional linkage to corporate strategy at the highest levels. The reason is that although an implementation may be completely successful, it may not make any difference, and even be rendered unusable, if corporate strategy calls for a shift that will render the best practice obsolete. For example, a fine new centralized accounts payable facility for the use of all corporate divisions is not of much use if the general corporate direction is to spin off or sell all of those divisions. Thus, proper integration of low-level best practices planning with high-level corporate planning is required to ensure that the correct projects are completed.

Given the large number of issues to resolve in order to give an implementation project a reasonable chance of success, it is apparent that the presence of a manager who is very experienced in the intricacies of project planning is a key component of an effective project team. Consequently, the acquisition of such a person should be one of the first steps to include in a project plan.

This section described in general terms the key components of a project plan that must be considered in order to foresee where problems may arise in the course of an implementation. We now proceed to a discussion of the impact of time on the success of a best practices implementation.

### Timing of Best Practices

The timing of a best practice implementation, the time it takes to complete it, and the pacing of installations have a major impact on the likelihood of success.

The timing of an implementation project is critical. For example, an installation that comes at the same time as a major deliverable in another area will receive scant attention from the person who is most responsible for using the best practice, since it takes a distant second place to the deliverable. Also, any project that comes on the heels of a disastrous implementation will not be expected to succeed, though this problem can be overcome by targeting a quick and easy project that results in a rapid success—and that overcomes the stigma of the earlier failure. Further, proper implementation timing must take into account other project implementations going on elsewhere in the company or even in the same department, so there is no conflict over project resources. Only by carefully considering these issues prior to scheduling a project will a best practice implementation not be impacted by timing issues.

In addition to timing, the *time* required to complete a project is of major importance. A quick project brings with it the aura of success, a reputation for completion, and a much better chance of being allowed to take on a more difficult and expensive project. Alternatively, a project that impacts lots of departments or people, or that involves the liberal application of cutting-edge technology, runs a major risk of running for a long time; and the longer the project, the greater the risk that something will go wrong, objections will arise, or that funding will run out. Thus, close attention to project duration will increase the odds of success.

Also, the concept of *pacing* is important. This means that a best practices implementation will be more likely to succeed if only a certain number of implementations are scheduled for a specific area. For example, if corporate management wants to install several dozen different types of best practices in five different departments, the best implementation approach is to install one best practice in a single department and then move on to a different department. By doing so, the staff of each department has a chance to assimilate a single best practice, which involves staff training, adjustments to policies and procedures, and modifications of work schedules. Otherwise, if they are bombarded with

multiple best practices at the same time or one after another, there is more likelihood that all of the best practices will fail or at least not achieve high levels of performance for some time. In addition, the staff may rebel at the constant stream of changes and refuse to cooperate with further implementations.

## Implementing Best Practices

The actual implementation of any best practice requires a great degree of careful planning, as noted earlier. However, planning is not enough. The implementation process itself requires a number of key components in order to ensure a successful conclusion. This section discusses those components.

One of the first implementation steps for all but the simplest best practice improvements is to study and flowchart the existing system about to be improved. By doing so, one can ascertain any unusual requirements that are not readily apparent and that must be included in the planning for the upcoming implementation. Though some reengineering efforts do not spend much time on this task, on the grounds that the entire system is about to be replaced, the same issue still applies—there are usually special requirements, unique to any company, that must be addressed in any new system. Accordingly, nearly all implementation projects must include this critical step.

Another issue is the cost-benefit analysis. This is a compilation of all the costs required to both install and maintain a best practice, which is offset against the benefits of doing so. These costs must include project team payroll and related expenses, outside services, programming costs, training, travel, and capital expenditures. This step is worth a great deal of attention, for a wise manager will not undertake a new project, no matter how cutting-edge and high-profile it may be, if there is not a sound analysis in place that clearly shows the benefit of moving forward with it.

Another cost-benefit analysis consideration is that the installation of a cluster of interconnected best practices can result in an exceptionally large payback. For example, if a payroll department employed a paymaster to distribute paychecks, it might find that it could not eliminate this position solely through the use of direct deposit, because unbanked employees could not take advantage of electronic payments; instead, only by also implementing paycards for the unbanked employees could the company switch entirely away from manual payments, thereby allowing it to actually eliminate the paymaster position and maximize its savings. A second consideration is that some existing processes will not achieve high levels of efficiency improvement if only a single link in the process is replaced with a best practice; instead, a wholesale process replacement is needed in order to achieve maximum profit enhancement. However, when considering the installation of best practice clusters, be aware that this can have an adverse impact on employees, whose morale may suffer from having been burdened with an unending stream of best practices projects. Sometimes, spreading out implementation projects over



time, with scheduled breaks, will result in more complete success of individual projects, thereby resulting in a better overall impact on the success of a cluster of improvements—it just takes longer to complete.

Yet another implementation issue is the use of new technology. Though there may be new devices or software on the market that can clearly improve the efficiency of a company's operations, and perhaps even make a demonstrative impact on a company's competitive situation, it still may be more prudent to wait until the technology has been tested in the marketplace for a short time before proceeding with an implementation. This is a particular problem if there is only one supplier offering the technology, especially if that supplier is a small one or with inadequate funding, with the attendant risk of going out of business. In most cases, the prudent manager will elect to use technology that has proven itself in the marketplace, rather than using the most cutting-edge applications.

Of great importance to most best practice implementations is system testing. Any new application, unless it is astoundingly simple, carries with it the risk of failure. This risk must be tested repeatedly to ensure that it will not occur under actual use. The type of testing can take a variety of forms. One is volume testing, to ensure that a large number of employees using the system at the same time will not result in failure. Another is feature testing, in which test transactions that test the boundaries of the possible information to be used are run through the system. Yet another possibility is recovery testing—bringing down a computer system suddenly to see how easy it is to restart the system. All of these approaches, or others, depending on the type of best practice, should be completed before unleashing a new application on employees.

One of the last implementation steps before firing up a new best practice is to provide training to employees in how to run the new system. This must be done as late as possible, since employee retention of this information will dwindle rapidly if not reinforced by actual practice. In addition, this training should be hands-on whenever possible, since employees retain the most information when training is conducted in this manner. It is important to identify in advance all possible users of a new system for training, since a few untrained employees can result in the failure of a new best practice.

A key element of any training class is procedures. These must be completed, reviewed, and be made available for employee use not only at the time of training, but also at all times thereafter, which requires a good manager to oversee the procedure creation and distribution phases. Procedure-writing is a special skill that may require the hiring of technical writers, interviewers, and systems analysts to ensure that procedures are properly crafted. The input of users into the accuracy of all procedures is also an integral step in this process.

Even after the new system has been installed, it is necessary to conduct a post-implementation review. This analysis determines if the cost savings or efficiency improvements are in the expected range, what problems arose during the implementation that should be avoided during future projects, and what issues are still unresolved from the current implementation. This last point is particularly

important, for many managers do not follow through completely on all the stray implementation issues, which inevitably arise after a new system is put in place. Only by carefully listing these issues and working through them will the employees using the new system be completely satisfied with how a best practice has been installed.

An issue that arises during all phases of a project implementation is communications. Since there may be a wide range of activities going on, many of them dependent on each other, it is important that the status of all project steps be continually communicated to the entire project team, as well as to all affected employees. By doing so, a project manager can avoid such gaffes as having one task proceed without knowing that, due to changes elsewhere in the project, the entire task has been rendered unnecessary. These communications should not just be limited to project plan updates, but should also include all meeting minutes in which changes are decided on, documented, and approved by team leaders. By paying attention to this important item at every step of an implementation, the entire process will be completed much more smoothly.

As described in this section, a successful best practice implementation nearly always includes a review of the current system, a cost-benefit analysis, responsible use of new technology, system testing, training, and a post-implementation review, with a generous dash of communications at every step.

## **Best Practice Duplication**

It can be a particularly difficult challenge to duplicate a successful best practice when opening a new company facility, especially if expansion is contemplated in many locations over a short time period. The difficulty with best practice duplication is that employees in the new locations are typically given a brief overview of a best practice and told to “go do it.” Under this scenario, they have only a sketchy idea of what they are supposed to do, and so create a process that varies in some key details from the baseline situation. To make matters worse, managers at the new location may feel that they can create a better best practice from the start, and so create something that differs in key respects from the baseline. For both reasons, the incidence of best practice duplication failure is high.

To avoid these problems, a company should first be certain that it has accumulated all possible knowledge about a functioning best practice—the forms, policies, procedures, equipment, and special knowledge required to make it work properly—and then transfer this information into a concise document that can be shared with new locations. Second, a roving team of expert users must be commissioned to visit all new company locations and personally install the new systems, thereby ensuring that the proper level of experience with a best practice is brought to bear on a duplication activity. Finally, a company should transfer the practitioners of best practices to new locations on a semipermanent basis to ensure that the necessary knowledge required to make a best practice effective

over the long term remains on-site. By taking these steps, a company can increase its odds of spreading best practices throughout all of its locations.

A special issue is the tendency of a new company location to attempt to enhance a copied best practice at the earliest opportunity. This tendency frequently arises from the belief that one can always improve upon something that was created elsewhere. However, these changes may negatively impact other parts of the company's systems, resulting in an overall reduction in performance. Consequently, it is better to insist that new locations duplicate a best practice in all respects and use it to match the performance levels of the baseline location before they are allowed to make any changes to it. By doing so, the new location must take the time to fully utilize the best practice and learn its intricacies before they can modify it.

### Why Best Practices Fail

There is a lengthy list of reasons why a best practice installation may not succeed, as noted in the following bullet points. The various reasons for failure can be grouped into a relatively small cluster of primary reasons. The first is lack of planning, which can include inadequate budgeting for time, money, or personnel. Another is the lack of cooperation by other entities, such as the programming staff or other departments that will be impacted by any changes. The final, and most important, problem is that there is little or no effort made to prepare the organization for change. This last item tends to build up over time as more and more best practices are implemented, eventually resulting in the total resistance by the organization to any further change. At its root, this problem involves a fundamental lack of communication, especially to those people who are most impacted by change. When a single implementation is completed without informing all employees of the change, this may be tolerated, but a continuous stream of them will encourage a revolt. In alphabetical order, the various causes of failure are noted as follows:

- *Alterations to packaged software.* A very common cause of failure is that a best practice requires changes to a software package provided by a software supplier; after the changes are made, the company finds that the newest release of the software contains features that it must have and so it updates the software—wiping out the programming changes that were made to accommodate the best practice. This problem can also arise even if there is only a custom interface between the packaged software and some other application needed for a best practice, because a software upgrade may alter the data accessed through the interface. Thus, alterations to packaged software are doomed to failure unless there is absolutely no way that the company will ever update the software package.
- *Custom programming.* A major cause of implementation failure is that the programming required to make it a reality either does not have the requested

specifications, costs more than expected, arrives too late, is unreliable—or all of the above! Since many best practices are closely linked to the latest advances in technology, this is an increasingly common cause of failure. To keep from being a victim of programming problems, one should never attempt to implement the most “bleeding-edge” technology, because it is the most subject to failure. Instead, wait for some other company to work out all of the bugs and make it a reliable concept, and then proceed with the implementation. Also, it is useful to interview other people who have gone through a complete installation to see what tips they can give that will result in a smoother implementation. Finally, one should always interview any other employees who have had programming work done for them by the in-house staff. If the results of these previous efforts were not acceptable, it may be better to look outside of the company for more competent programming assistance.

- *Inadequate preparation of the organization.* Communication is the key to a successful implementation. Alternatively, no communication keeps an organization from understanding what is happening; this increases the rumors about a project, builds resistance to it, and reduces the level of cooperation that people are likely to give to it. Avoiding this issue requires a considerable amount of up-front communication about the intentions and likely impact of any project, with that communication targeted not just at the impacted managers, but also at all impacted employees, and to some extent even the corporation or department as a whole.
- *Intransigent personnel.* A major cause of failure is the employee who either refuses to use a best practice or who actively tries to sabotage it. This type of person may have a vested interest in using the old system, does not like change in general, or has a personality clash with someone on the implementation team. In any of these cases, the person must be won over through good communication (especially if the employee is in a controlling position) or removed to a position that has no impact on the project. If neither of these actions is successful, the project will almost certainly fail.
- *Lack of control points.* One of the best ways to maintain control over any project is to set up regular review meetings, as well as additional meetings to review the situation when preset milestone targets are reached. These meetings are designed to see how a project is progressing, to discuss any problems that have occurred or are anticipated, and to determine how current or potential problems can best be avoided. Without the benefit of these regular meetings, it is much more likely that unexpected problems will arise, or that existing ones will be exacerbated.
- *Lack of funding.* A project can be canceled either because it has a significant cost overrun that exceeds the original funding request or because it was initiated without any funding request in the first place. Either approach results in failure. Besides the obvious platitude of “don’t go over budget,” the best way to avoid this problem is to build a cushion into the original funding

request that should see the project through, barring any unusually large extra expenditures.

- *Lack of planning.* A critical aspect of any project is the planning that goes into it. If there is no plan, there is no way to determine the cost, number of employees, or time requirements, nor is there any formal review of the inherent project risks. Without this formal planning process, a project is very likely to hit a snag or be stopped cold at some point prior to its timely completion. On the contrary, using proper planning results in a smooth implementation process that builds a good reputation for the project manager and thereby leads to more funding for additional projects.
- *Lack of post-implementation review.* Though it is not a criterion for the successful implementation of any single project, a missing post-implementation review can cause the failure of later projects. For example, if such a review reveals that a project was completed in spite of the inadequate project planning skills of a specific manager, it might be best to use a different person in the future for new projects, thereby increasing his or her chances of success.
- *Lack of success in earlier efforts.* If a manager builds a reputation for not successfully completing best practices projects, it becomes increasingly difficult to complete new ones. The problem is that no one believes that a new effort will succeed and so there is little commitment to doing it. Also, upper management is much less willing to allocate funds to a manager who has not developed a proven track record for successful implementations. The best way out of this jam is to assign a different manager to an implementation project, one with a proven track record of success.
- *Lack of testing.* A major problem for the implementation of especially large and complex projects, especially those involving programming, is that they are rushed into production without a thorough testing process to discover and correct all bugs that might interfere with or freeze the orderly conduct of work in the areas they are designed to improve. There is nothing more dangerous than to install a wonderful new system in a critical area of the company, only to see that critical function fail completely due to a problem that could have been discovered in a proper testing program. It is always worthwhile to build some extra time into a project budget for an adequate amount of testing.
- *Lack of top management support.* If a project requires a large amount of funding or the cooperation of multiple departments, it is critical to have the complete support of the top management team. If not, any required funding may not be allocated, while there is also a strong possibility that any objecting departments will be able to sidetrack it easily. This is an especially common problem when the project has no clear project sponsor at all—without a senior-level manager to drive it, a project will sputter along and eventually fade away without coming anywhere near completion.

- *Relying on other departments.* As soon as another department's cooperation becomes a necessary component of a best practice installation, the chances of success drop markedly. The odds become even smaller if multiple departments are involved. The main reason is that there is now an extra manager involved, who may not have the commitment of the accounting manager to make the implementation a success. In addition, the staff of the other department may influence their manager not to help out, while there may also be a problem with the other department not having a sufficient amount of funding to complete its share of the work. For example, an accounting department can benefit greatly at period-end if the warehouse is using cycle-counting to keep inventory accuracy levels high, since there is no need for a physical inventory count. However, if the warehouse does not have the extra staff available to count inventory, the work will not be done, no matter how badly the accounting staff wants to implement this best practice.
- *Too many changes in a short time.* An organization will rebel against too much change if it is clustered into a short time frame. The reason is that change is unsettling, especially when it involves a large part of people's job descriptions, so that nearly everything they do is altered. This can result in direct employee resistance to further change, sabotaging new projects, a work slowdown, or (quite likely) the departure of the most disgruntled workers. This problem is best solved by planning for lapses between implementation projects to let the employees settle down. The best way to accomplish this lag between changes without really slowing down the overall schedule of implementation is to shift projects around in the accounting department, so that no functional area is on the receiving end of two consecutive projects.

The primary reason for listing all of these causes of failure is not to discourage the reader from ever attempting a best practice installation. On the contrary, this allows one to prepare for and avoid all roadblocks on the path to ultimate implementation success.

A useful approach for dealing with many of the problems spotlighted in this section is to use a rapid-results initiative (RRI). An RRI is a mini-project intended to create results similar to a full-scale best practices project, but for a more limited area and within a very short time period. By undertaking an RRI, the project team can spot problems faster than would be the case with a major initiative, and then transfer its findings to the main project, thereby increasing the chances of success for the main project. In short, an RRI is designed to locate and correct pitfalls that could otherwise cause major problems for a full-scale best practices implementation.

Another approach to avoiding best practice failure is to spend a considerable amount of time examining logical deficiencies in a proposed best practice. Since the person proposing a best practice installation is more likely to be blind to its possible downsides, it is better to have another person review the proposal for these

deficiencies; better yet, have a subject-matter expert examine the proposal for problems. When a project will involve other departments, including the staffs of those departments in the logical deficiencies review will inherently work to gain their acceptance if their issues can be overcome as part of the implementation process.

## **The Impact of Best Practices on Employees**

The impact of best practices on employees is significant. In the short run, there is an overwhelming feeling of discontent, because any kind of change makes employees nervous about what the impact will be on their jobs. Admittedly, a primary purpose of using best practices is to reduce the payroll expense in the accounting department, or at least to handle an increased workload with the same number of employees. Consequently, employees have a reason to be concerned.

There are several ways to deal with employee concerns. One is to create a standard policy of rolling all displaced employees onto a project team that will be used to implement even more best practices. This approach tends to attract the best employees to the project team, but also has the disadvantage of eventually displacing so many employees that there are too many people staffing the implementation team. The opposite approach is to be up-front about projected changes to employee jobs and to give a generous amount of both notice and severance pay to those people who will be displaced. Given the realities of paying extra money to departing employees and the need for well-staffed implementation teams, the recommended approach is somewhere in the middle—to retain a few of the best employees to run new projects, which reduces the amount of severance that must be paid out to departing employees.

The other problem, which is more of a long-run issue, is communications. Even after the initial round of layoffs, there will be a continued emphasis on constantly improving the accounting department's processes. These changes cannot take place in a vacuum. Instead, the implementation team must carefully research the costs and benefits of each prospective best practice, discuss the issue with those employees who are most knowledgeable about how any changes will impact the organization as a whole, and rely to a considerable extent on their advice in regard to whether there should be any implementation at all, and if so, how the best practice should be modified to fit the organization's particular circumstances. Only by making the maximum use of employees' knowledge and by paying close attention to their opinions and fears can an implementation team continually succeed in installing a series of best practices.

Thus, communication is the key—both in handling employee departures in the short term, while the accounting department is reducing its staffing levels to match greater levels of efficiency, and in the long run, when employee cooperation is crucial to continued success.

## Summary

This chapter has given an overview of the situations in which best practices implementations are most likely to succeed, what factors are most important to the success or failure of an implementation, and how to successfully create and follow through on an implementation project. By following the recommendations made in this chapter, not only those regarding how to implement, but also those regarding what *not* to do, a manager will have a much higher chance of success. With this information in hand, one can now confidently peruse the remaining chapters, which are full of best practices. The reader will be able to select those practices having the best chance of a successful implementation, based on the specific circumstances pertaining to each manager, such as the funding, time available, and any obstacles, such as entrenched employees or a corporate intransigence pertaining to new projects.



# Accounts Payable Best Practices

The accounts payable function is the most labor-intensive of all the accounting functions and is therefore an excellent source of labor savings if the correct best practices can be implemented. The basic process in most companies is to receive three types of information from three sources—an invoice from the supplier, a purchase order from the purchasing department, and a proof of receipt from the receiving department. The accounts payable staff then matches all three documents to ensure that a prospective payment is authorized and that the underlying goods have been received, and then pays the bill. The process is labor-intensive—partially because there is such a large amount of matching to do, but also because the three documents almost never match. Either the purchase order quantities or prices do not match what the supplier is charging or else the amount received does not match the quantities on the other two documents. Because of these inaccuracies, the amount of labor required to issue a payment can be extraordinarily high.

The best practices in this chapter fall into a few main categories, most of them designed to reduce the matching work. One category attempts to consolidate the number of invoices arriving from suppliers, thereby shrinking the paperwork from this source—typical best practices in this area are using procurement cards and shrinking the number of suppliers. Another category tries to reduce or eliminate the number of receiving documents. Typical best practices in this area are substituting occasional audits for ongoing matching of receiving documents, as well as directly entering receipts into the computer system. Finally, another category reduces the number of purchase orders that must be matched. Typical best practices in this area include using blanket purchase orders and automating three-way matching. Other solutions to the matching problem involve going away from the traditional matching process entirely, by using payments based solely on proof of receipt. It is not possible to use all of these best practices together, since some are mutually exclusive—one must be careful in choosing the correct best practices.

Lastly, a number of best practices focus on the overall accounts payable process, attempting to either shrink or automate the number of steps required before a company issues payment to a supplier. Examples of best practices in this area include using a signature stamp and switching to wire transfers.

The number of best practices in the accounts payable area indicates that this function is ripe for improvements. However, some best practices require a large

investment of money or time, as noted in the chart in the next section, so the person doing the improving should verify that resources are available before embarking on an implementation.

## Implementation Issues for Accounts Payable Best Practices

This section notes a number of issues related to the implementation of each best practice. The reader should peruse Exhibit 3.1 to ensure that the effort required to install a best practice is in agreement with the available constraints. For example, automating expense reporting is listed as requiring a long implementation period and being moderately expensive (all because of the programming required). If the reader has a large staff of traveling employees who constantly submit expense reports, this may be a viable option, despite the projected implementation barriers. However, if only a few expense reports are submitted, then perhaps this is a best practice that should be passed over in favor of more practical opportunities.

Exhibit 3.1 lists all of the best practices in this chapter. Next to the best practices are ratings for estimates of the cost to completely install each best practice. The last column shows the duration of implementation, which can be an issue for anyone looking for quick results. Any large programming projects are assumed to have long implementation durations.











































One should be careful to not just select “quick hits” from Exhibit 3.1. Though these best practices are certainly worth the effort of installing, it is important to remember that some of the most difficult items on the list can have the largest payback. Accordingly, it is best to review the list in detail and assemble a set of best practices that provide for a combination of quick and easy victories, while also allowing for solid, long-term improvements that will impact the accounts payable function’s levels of efficiency and effectiveness.

### 3–1 Pay Based on Receiving Approval Only

✓ *Author’s Choice*

The accounts payable process is one of the most convoluted of all the processes that a company can adopt, irrespective of the department. First, it requires the collection of information from multiple departments—purchase orders from the purchasing department, invoices from suppliers, and receiving documents from the receiving department. The process then involves matching these documents, which almost always contain exceptions, and then tracking down someone either to approve exceptions or to at least sign the checks, which must then be mailed to suppliers. The key to success in this area is to thoroughly reengineer the entire process by eliminating the paperwork, the multiple sources of information, and the additional approvals. The only best practice that truly addresses the underlying problems of the accounts payable process is paying based on receipt.

**Exhibit 3.1** Summary of Accounts Payable Best Practices



























<i>Best Practice</i>	<i>Cost</i>	<i>Install Time</i>
<b>Approvals</b>		
3-1 Pay based on receiving approval only		
3-2 Reduce required approvals		
3-3 Use negative assurance for invoice approvals		
<b>Credit Cards</b>		
3-4 Use procurement cards		
3-5 Use a ghost card		
3-6 Negotiate procurement card rebates		
<b>Documents</b>		
3-7 Route all invoices directly to accounts payable		
3-8 Split payables processing based on discounts		
3-9 Adopt a standard invoice numbering convention		
3-10 Automate three-way matching		
3-11 Digitize accounts payable documents		
3-12 Directly enter receipts into computer		
3-13 Fax transmission of accounts payable documents		
3-14 Have suppliers include their supplier numbers on invoices		
3-15 Receive billings through electronic data interchange		
3-16 Request that suppliers enter invoices through a Web site		
3-17 Shift incoming billings to an EDI data-entry supplier		
<b>Expense Reports</b>		
3-18 Audit expense reports		
3-19 Automate expense reporting		
3-20 Eliminate cash advances for employee travel		
3-21 Link corporate travel policies to automated expense reporting system		

(continues)

Exhibit 3.1 (Continued)

	<i>Best Practice</i>	<i>Cost</i>	<i>Install Time</i>
<b>Management</b>			
3-22	Centralize the accounts payable function		
3-23	Store late fees in a separate general ledger account		
3-24	Issue standard account code list		
3-25	Link supplier requests to the accounts payable database		
3-26	Implement a reverse lockbox		
3-27	Outsource the accounts payable function		
3-28	Shrink the supplier base		
3-29	Withhold first payment until W-9 form is received		
3-30	Verify taxpayer ID numbers		
<b>Payments</b>			
3-31	Automate payments for repetitive processing		
3-32	Install a payment factory		
3-33	Eliminate manual checks		
3-34	Increase the frequency of check runs		
3-35	Have regularly scheduled check signing meetings		
3-36	Implement positive pay		
3-37	Incorporate copy protection features into checks		
3-38	Avoid acronym payees on checks		
3-39	Use the universal payment identification code		
3-40	Revise payment terms for electronic payments		
3-41	Install advanced ACH debit blocking		
3-42	Use signature stamp		

Exhibit 3.1 (Continued)

	<i>Best Practice</i>	<i>Cost</i>	<i>Install Time</i>
<b>Purchasing</b>			
3-43	Notify purchasing of lower invoiced prices or terms		
3-44	Create direct purchase interfaces to suppliers		
3-45	Create online purchasing catalog		
3-46	Install a low-cost spend management system		
3-47	Use blanket purchase orders		
<b>Suppliers</b>			
3-48	Issue a welcome packet to new suppliers		
3-49	Clean up the supplier master file		
3-50	Adopt a supplier naming procedure		
3-51	Assign payables staff to specific suppliers		
3-52	Create different supplier accounts for different terms		
3-53	Ignore supplier invoices and pay from statements		
3-54	Review supplier statements for open credits		
3-55	Issue standard adjustment letters to suppliers		

To pay based on receipt, one must first do away with the concept of having an accounts payable staff that performs the traditional matching process. Instead, the receiving staff checks to see if there is a purchase order at the time of receipt. If there is, the computer system automatically pays the supplier. Sounds simple? It is not. A company must have several features installed before the concept will function properly. The main issue is having a computer terminal at the receiving dock. When a supplier shipment arrives, a receiving person takes the purchase order number and quantity received from the shipping documentation and punches it into the computer. The computer system checks against an on-line database of open purchase orders to see if the shipment was authorized. If so, the system automatically schedules a payment to the supplier based on the purchase order price, which can be sent by wire transfer. If the purchase order number is not in the database, or if there is no purchase order number at all, the shipment is rejected at the

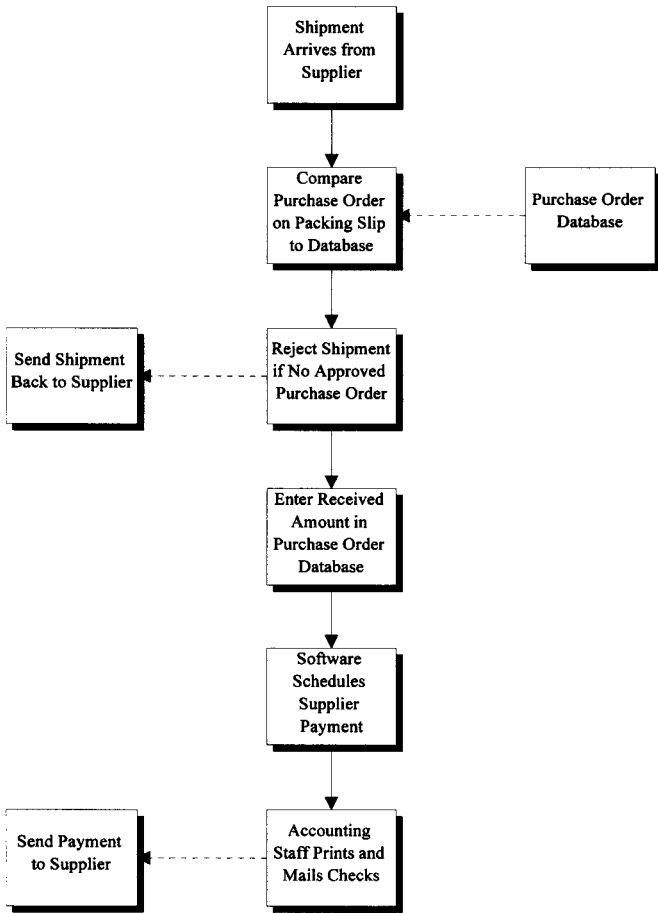


Exhibit 3.2 The Process Flow for Payment Based on Receiving Approval

receiving dock. Note that the accounts payable staff takes no part whatsoever in this process—everything has been shifted to a simple step at the receiving location. The process is shown graphically in Exhibit 3.2.

Before laying off the entire accounts payable staff and acquiring such a system, there are several problems to overcome. They are as follows:

- *Train suppliers.* Every supplier who sends anything to a company must be trained to include the purchase order number, the company’s part number, and the quantity shipped on the shipping documentation, so this information can be punched into the computer at the receiving location. The information can be encoded as bar codes to make the data-entry task easier for the receiving employees. Training a supplier may be difficult, especially if the com-

pany only purchases a small quantity of goods from the supplier. To make it worthwhile for the supplier to go to this extra effort, it may be necessary to concentrate purchases with a smaller number of suppliers to give each one a significant volume of orders.

- *Alter the accounting system.* The traditional accounting software is not designed to allow approvals at the receiving dock. Accordingly, a company will have to reprogram the system to allow the reengineered process to be performed. This can be an exceptionally major undertaking, especially if the software is constantly being upgraded by the supplier—every upgrade will wipe out any custom programming that the company may have created.
- *Prepare for miscellaneous payments.* The accounts payable department will not really go away because there will always be stray supplier invoices of various kinds arriving for payment that cannot possibly go through the receiving dock, such as subscription payments, utility bills, and repair invoices. Accordingly, the old payments system must still be maintained, though at a greatly reduced level, to handle these items.
- *Pay without a supplier invoice.* One of the key aspects of the reengineered process is paying based on the information in the purchase order, rather than the information in the supplier's invoice. To do so, one must have a database of all the tax rates that every supplier would charge, so that the company's computer system can automatically include these taxes in the invoice payments. Also, there will sometimes be discrepancies between the purchase order prices and quantities paid, versus those expected by suppliers, so an accounts payable staff must be kept on hand to correspond with suppliers to reconcile these issues.

The preceding bullet points reveal that there are a wide array of problems that must first be overcome before the dramatic improvements of this new process can be realized. However, for a company with a large accounts payable staff, this can be a highly rewarding system to install, for the savings realized can be the elimination of the majority of the accounts payable department.

Cost:  Installation time: 

### 3–2 Reduce Required Approvals

✓ *Author's Choice*

The accounts payable process is typically a long one. Part of the problem is that many accounting systems require a manager's signature (or those of several managers!) on a supplier invoice before it can be paid. Though it is reasonable to have such a requirement if there is no purchase order for the invoice, many systems require the signature even if there is already a purchase order (which is, in effect,

a form of prior approval). Also, most accounting systems require a manager's signature on unapproved invoices, no matter how small the invoice may be. The result of these common approval procedures is that the accounts payable staff delivers invoices to managers for signatures and then waits until the documents are returned before proceeding further with the payment process. If the manager is not available to sign an invoice, then it sits; if the manager loses the invoice (a common occurrence), the invoice is never paid, resulting in an angry supplier who must send a fresh copy of the invoice for a second pass through the dangerous shoals of the company's approval process. This is a clearly inefficient process, both lengthy and likely to annoy suppliers. What can be done?

A superb best practice for any company to implement is to limit approvals to a single event or document and, wherever possible, to limit this approval to a period prior to the receipt of the supplier invoice. For example, an authorized signature on a purchase order should be sufficient overall approval to pay an invoice. After all, if the signature was good enough to authorize the initial purchase of the item or service, shouldn't the same signature be sufficient approval for the payment of the supplier's bill? In addition, by shifting the approval to the purchase order, we avoid having the accounts payable staff track down someone after the supplier's invoice has been received, which effectively chops time from the overall accounts payable process. Another variation is to use a signature on the purchase requisition, which comes before the purchase order. As long as either document is signed by an authorized person and sent to the accounts payable staff in advance, it does not matter which document is used as authorization. The key is to use a single authorization, before the supplier sends an invoice.

One reason why so many companies require multiple approvals, both at the time of purchasing and at the time of payment, is that they do not have a sufficient degree of control over the authorization process. For example, there may not be any real check of authorization signatures when purchase requisitions are converted into purchase orders, nor might there be any required signature when purchase orders are issued to suppliers. In addition, the signature stamp used to sign checks may not be properly controlled. In all these cases, if there were tight control over the authorization used, there would only be a need for a single authorization. For example, there should be an audit of all purchase orders to ensure that every one of them has been signed, that every signature is by an authorized person, and that the person signing is authorized to purchase what was ordered. This level of control requires continual internal audits to ensure that the control point is working, as well as continual follow-up and training of employees so that they know precisely how the control system is supposed to work. Only by instituting this degree of control over authorizations can a company reduce the number of approvals to a minimum.

Using tight control over approvals that are given early in the accounts payable process results in a shorter processing cycle and fewer delays.

**Cost:** 

**Installation time:** 