



Creating an Effective Accounts Payable Policy & Procedures Manual

By Mary S. Schaeffer

*Guidance on creating an efficient, effective, fraud
resistant and regulatory compliant accounts payable
policy and procedures manual*

© 2013 – Mary S. Schaeffer, Accounts Payable Now & Tomorrow, and CRYSTALLUS, Inc.
ALL RIGHTS RESERVED No portion of this material may be reprinted, reproduced,
transmitted, stored in a retrieval system, or otherwise utilized, in any form or by any
means, electronic or mechanical, including photocopying or recording, now existing or
hereinafter invented, nor may any part of this course be used for teaching without written
permission from Mary S. Schaeffer.

Creating An Effective Accounts Payable Policy & Procedures Manual

How to use the Materials

You can review these materials on-line and use the Next and Previous buttons or you can print the materials and read it in that format if you prefer.

Review/Solutions Section

The EBook contains Review/Solutions section(s) that review the materials at the end of each significant chapter. The Review/Solutions questions are a requirement of NASBA and are included to assist you in understanding the material better. They are NOT graded. The answers to the Review/Solutions sections are located in the EBook- immediately following the questions.

CPE Exam

A copy of the CPE Exam is located at the end of the EBook.

You may find it helpful to print out the paper exam and review it as you go through the course materials. The paper exam and the on-line exam contain the same questions. The advantage of using the online courseware is that your exam is graded instantly. A certificate is generated once you have passed the exam. In most cases, this is a score of 70% or better.

Logging on to Course Material & Exam Site

If you wish to go to the on-line exam go to <http://takeexams.cpaselfstudy.com> and login using the student id and password you created at your time of purchase. If you forget your password, you can click the Recover Password link under the Login dialog box.

An alternative way to get to the exam is to go to <http://www.cpaselfstudy.com> and simply click on the Student Login icon located at the top of the website and then login.

Creating An Effective Accounts Payable Policy & Procedures Manual

Course Information

Course Title: Creating An Effective Accounts Payable Policy & Procedures Manual

Learning Objectives:

- Pinpoint reasons an up-to-date accounts payable policy and procedures manual is needed
- Demonstrate how an accounts payable policy and procedures manual strengthens controls
- Show how to create a policy and procedures manual
- Demonstrate several ways to start creating a manual from scratch
- Show how to use the manual to address the rush check problem
- Identify several short cuts to use when creating a policy and procedures manual
- Delineate the segregation of duties requirements for the accounts payable function for inclusion in the policy and procedures manual
- Show how computer access levels may circumvent segregation of duties requirements
- Prepare an action plan to review and update an old policy and procedures manual
- Identify often-overlooked changes that will improve accounts payable procedures

Subject Area: Accounting

Prerequisites: None

Program Level: Overview

Program Content: Effective policies and procedures in the Accounts Payable function is critical for any organization wishing to reduce or eliminate duplicate payments, prevent and detect fraud, be cost effective and compliant with all regulatory issues affecting the payment function. The first step in that battle is having a current, detailed policy and procedures manual. This course presents information the professional can use to create an effective manual, that not only documents the organizations policies and procedures, can be used as a reference and training guide. Industry expert Mary Schaeffer shows auditors, controllers, and managers how to create such a manual when none exists. She also includes an outline for a sample policy as well as a checklist they can use to determine if their current policy is best practice or something less.

Advance Preparation: None

Creating An Effective Accounts Payable Policy & Procedures Manual

Table of Contents

Preface

Chapter 1: The Role an Accounts Payable Policy and Procedures Manual Plays

- Why a Policy and Procedures Manual Is Needed
- The Policy and Procedures Manual from a Control Standpoint
- Including a Flowchart Is Not a Bad Idea
- Review Questions
- Review Answers

Chapter 2: Creating the Manual

- No Policy and Procedures Manual? Three Ways to Get Started
- A Straightforward Plan to Update the Accounts Payable Policy & Procedures Manual
- Review Questions
- Review Answers

Chapter 3: Using the Manual

- Teaching an Old Dog New Tricks: 5 Tips to Enforcing Policy Changes
- Tips for Creating A User-Friendly Accounts Payable Policy and Procedures Manual
- How the Manual Can Help Solve the Rush Check Problem
- Review Questions
- Review Answers

Chapter 4: The Segregation of Duties Issue

- Don't Overlook Segregation of Duties Requirements
- Segregation of Duties: How Much Access Do Your Employees Really Have?
- Six Common Procedures that Enable Internal Check Fraud: Fix Them with Your Policy
- Review Questions
- Review Answers

Chapter 5: Reviewing and Updating Your Policy and Procedures

- Updating Your Accounts Payable Policy and Procedures Manual
- Five Often-Overlooked Practices that Should be Incorporated into Your Policies
- Review Questions
- Review Answers

Appendices

- Diagnostic: How Good Is Your Policy and Procedures Manual?
- A Discussion of the Best Practice Responses to the Diagnostic
- Sample Outline for an Accounts Payable Policy and Procedures Manual
- Glossary

Creating An Effective Accounts Payable Policy & Procedures Manual

Preface

The accounts payable policy and procedures manual is more than a static document with little value. Truth be told many organizations either don't have one or have one that hasn't been updated in years. This is a real shame. For if the right approach is taken towards the accounts payable policy and procedures manual, it can have many uses and can help ensure best practices are used throughout the accounts payable organization.

Many problems that arise from the accounts payable process occur because there is a lack of uniformity among processors in the way they handle invoices. If the exact same process is not used by every single processor, duplicate payments and other errors are likely to creep in. The only way to ensure that the same processes are used across the board is to have them written down with detailed instructions on how each task is to be accomplished.

This is the primary goal of the accounts payable policy and procedures manual. For it to be a true guide, it must be reviewed and updated on a very regular basis. Otherwise, it will quickly be come out of date and not serve the goal it is intended. What's more, a detailed manual can serve as a reference guide to your processors. So, when they come across an issue that does not come up every day, they won't have to guess on the right way to handle the problem. They can simply pull out the policy and procedures manual and verify.

A good policy and procedures manual can also serve as a training guide for new employees. Each one should be given a copy when they are hired and the manual should be referenced throughout the training process.

A few managers think it is a good idea to keep the manual short. This is a terrible idea because without a detailed manual, errors will creep in. You just can't have too much detail in the manual. Sometimes a manager will think, "oh, we don't have to put that in. Everyone knows the right way to do the task at hand." Unfortunately not everyone thinks the same way and this is a sure fire way to guarantee that errors will creep in.

When it comes to accounts payable policies and procedures, there is no room for creativity. This is one time when everyone has to perform tasks exactly like their colleagues. Should someone come up with a better way, they should bring their suggestion to the supervisor. If the approach is better, everyone can start using the new approach and there will be no concern for variances. Unfortunately, sometimes what looks like a good process improvement for the accounts payable department, is something that is not good for another unit within the organization. Thus, it is imperative that the employee share the new idea with the manager who can evaluate the idea and if it is workable, adjust procedures for everyone as well as updating the department's policy and procedures manual.

Creating An Effective Accounts Payable Policy & Procedures Manual

Chapter 1: The Role an Accounts Payable Policy and Procedures Manual Plays

Learning Objectives:

- Identify reasons an up-to-date accounts payable policy and procedures manual is needed
 - Demonstrate how an accounts payable policy and procedures manual strengthens controls
-

The accounts payable policy and procedures manual is something every organization should have. Unfortunately many don't have one and many who do, simply have not updated it in years. If five or more years have passed since a manual was updated, it will need a serious overhaul. If ten or more years have passed, there's a good chance the manual is so out of date, the organization would be better off starting from scratch rather than trying to update the existing manual.

Often I am asked, "Why can't I just buy a manual or copy someone else's?" The answer is quite simple. If you take someone else's manual, you'll have a manual that documents someone else's policies and procedures and in all likelihood will have little to do with what your organization does. For the reality is every organization handles its accounts payable function a little different than the next one. Hence, it is not a good idea to simply take someone else's manual and pass it off as your own.

Why a Policy and Procedures Manual Is Needed

Because many accounts payable departments have grown gradually or evolved as part of the accounting department, few have a written game plan. Instead, procedures are developed on an as-needed basis, in kind of a hodgepodge manner. Moreover, much of the knowledge about how things work and where information is located often resides with specific individuals. If those individuals get sick or accept another job, the company is left in a lurch.

Every accounts payable department should have a procedures manual, to serve not only as a guide in case of emergency, but also to provide managers with the necessary documentation to demonstrate to management the capabilities of the staff and the work they are handling. Without such a document, few understand the scope of information that is needed to run a successful department. This is especially important for those organizations subject to the strictures of the Sarbanes-Oxley Act.

The procedures manual can also be used to determine whether any processes can be eliminated. Needless to say, this document will not be the most interesting book ever written, but it is essential. As an added benefit, it will make the auditors happy. The manual should not only be prepared by those who are actually doing the day-to-day tasks, but it should also be updated regularly. Some choose to do this anytime a process is amended or added, whereas others do it annually. It is imperative that this be done. You'd be surprised to discover just how much processes change over the course of a year.

There is one other reason to have this manual and insist that everyone follow it. Left to their own devices, processors in accounts payable will gradually develop their own procedures.

Creating An Effective Accounts Payable Policy & Procedures Manual

Without a careful and periodic review, each person will end up handling transactions differently. There is a word for this, and it is *chaos*. If one processor has an idea for an improved way of doing a particular task, the suggestion should be raised with the manager. If it is determined that the suggestion is superior to the methodology in use, everyone should change how they handle that particular task, and the policy and procedures manual should be updated to reflect this change.

Now, if this seems to be a cumbersome and costly task, think again. Thanks to the Internet, many companies now post their manuals on their corporate intranet site. This makes it available to anyone who may need to check it. It also makes updating a snap, and there are no costly printing charges each time the manual is updated. Finally, putting all the latest changes on the intranet removes that old chestnut of an excuse: "nobody told me." E-mail alerts can be sent to everyone who is affected each time the policy is updated.

What If You Don't Have One?

If your accounts payable department does not have a policy and procedures manual, the staff should bite the bullet and prepare one. If topics are divided among the staff and each one writes a chapter or two, the work will not seem overly burdensome. If you need some samples, do a search on the Internet.

You'll come up with numerous samples that you can modify to fit your own procedures. One word of caution regarding those Internet policies, however: Most are written by universities. If you are in a manufacturing environment, you may have to add several sections. Still, having something to start with is a big help.

Finally, once the manual is completed, especially if it includes your T&E procedures, all affected parties should be notified that they will be expected to conform to the policies. Expect a certain amount of complaining. To make sure the policy is enforced, the first notice to the staff should come from a high-level executive (e.g., the controller or the CFO). Some companies put a short note from this executive on the front page of the policy so everyone understands that they will be expected to adhere to it. This is especially important when it comes to issues like T&E, Rush checks, and not returning checks to requisitioners.

The Policy and Procedures Manual from a Control Standpoint

Like the semiannual visit to the dentist, most professionals know they should have a policy and procedures manual, but only a small percentage actually do. Even in those organizations that finally do get one put together, it is rarely updated. While Sarbanes-Oxley doesn't actually mandate a policy and procedures manual for accounts payable, it's hard to visualize many situations where one would be considered in compliance without one.

If you've flowcharted your processes, a good portion of the work producing the manual has been completed. The task at hand is converting that diagram into words, keeping it updated, and making sure it reflects what actually goes on in the department.

What sometimes happens, with both the manual and the flowchart, is that over time, processes drift from the documented policy to something else. Unfortunately, that something else often introduces weaknesses and control points into the process. Sometimes, in an effort to speed up the work, steps are omitted from the process or the segregation of duties requirements are voided.

Creating An Effective Accounts Payable Policy & Procedures Manual

The policy and procedures manual should be shared with all affected parties. This means that, for example, purchasing should have input into and be given the final version of all sections that affect it. It is meaningless to write a policy that will require a three-day turnaround time of invoices if interoffice mail is used and it is slow. Similarly, if the purchasing manager is required to approve all invoices and he travels extensively, a lengthy approval time will be required unless electronic mechanisms are used or the board authorization for spending approvals can be further delegated.

Many organizations now post their accounts payable policy and procedures manual on their company intranet sites. This makes the information available to anyone who needs it, makes updating it relatively easy, and keeps it on the forefront of everyone's mind. It also makes it easy to refer people with questions to the manual rather than have accounts payable answer every question. From a control standpoint, this is recommended.

It forces everyone to use the same source document for procedures rather than relying on one individual's memory, which may or may not be accurate. Readers should be aware that having a policy and procedures manual can come back to haunt them if the staff does not adhere to it. By posting it on the intranet, or making it readily available using some other mechanism, the department is announcing its requirements. It makes it relatively easy to uncover situations where the policy is not adhered to by the accounts payable staff.

The Policy and Procedures Manual: An Ongoing Project

Very little in life remains static, and accounts payable is no exception. Even if you think you have policies and procedures exactly the way you like them, circumstances outside the control of the department may force a change. A move to a new accounting system, starting to use electronic payment alternatives, a demand by a key supplier, a physical move by a group within the organization, a new CFO, or any one of a thousand other things can cause the department to need to implement change.

The very best manuals are updated every time a change to the procedures is made. This is one of the benefits of posting the manual online instead of printing hard copies. Of course this is probably not realistic in most organizations. At least once a year the manual should be reviewed and updated. This is also a good time to ensure that the procedures detailed in the manual are actually being followed in the department. You will be surprised to find how often they are not.

Including a Flowchart Is Not a Bad Idea

Most experts recommend that the department's operations be flowcharted as part of the Sarbanes-Oxley compliance process. This is a good idea even without the Act. It forces the discipline of reviewing the ongoing process and documenting it. This flowchart should not be completed in a vacuum. It needs to accurately represent the work flow of the department, not what the manager or executives would like the work flow to look like.

It should be completed with input from the individuals who do the work. When it is completed, someone should verify that what's in the chart is how the work actually is done. This is a great opportunity for the manager who believes some of the group's processes are more cumbersome than they need to be. Once the chart is completed, it can be reviewed for two reasons:

1. To ensure that the appropriate controls are in place

Creating An Effective Accounts Payable Policy & Procedures Manual

2. To determine whether there are any processes on the chart that are unnecessary

This last analysis is key to getting rid of non-value-added steps. There is a good reason for eliminating these extraneous steps. They can actually weaken controls. Here's an example: In some organizations all hand-signed checks must be reviewed by an assistant treasurer before they are mailed. At the company in question, the checks often sit on this individual's desk for two or three days before he or she releases them. While ostentatiously this is a review process, the real reason for the review is that this is how the assistant treasurer monitors what other departments are spending--something that is none of his professional business.

If the appropriate up-front controls are in place, this review adds nothing but time and additional risk (someone could take the checks from his frequently unoccupied office) to the process. By including this step in the process, it highlights the inefficiency. To further highlight the process, include estimated time frames with each step. This will become useful in those situations where management is demanding (often rightly so) that the procure-to-pay cycle be accelerated. Simply take out the flowchart, with the time frames noted, and ask where the time should be cut from the process.

One of the biggest bottlenecks in many organizations is the invoice-approval process. It is not unusual to see two thirds or more of the cycle time being allotted to getting the invoice approved. This is especially true if electronic invoicing, imaging, and work flow are not being used. The flowchart will highlight these inefficiencies. Accounts payable professionals can use this chart to back their recommendations for imaging, work flow, and/or electronic invoicing.

Review/Solution Questions - Answers Immediately Follow

1) How often should the policy and procedures manual be updated? (Please select the best response).

- A. Every five years
- B. Whenever there is a change or annually, if no changes were made
- C. Never
- D. When there is a new hire

2) Who should have access to the policy and procedures manual?

- A. Only managers
- B. Only Processors
- C. Anyone who might need to see it
- D. Only upper management

Creating An Effective Accounts Payable Policy & Procedures Manual

Review Questions/Solutions – Answers

1) How often should the policy and procedures manual be updated? (Please select the best response).

- A. Incorrect. If you wait five years to review and update a manual, it will be hopelessly out of date.
- B. **Correct.** Whenever there is a change or annually, if no changes were made is a recommended best practice for all organizations.
- C. Never. A policy and procedures manual that is never updated is one that is not worth the paper it is written on.
- D. While all new hires in the accounts payable department should be given a copy of the policy and procedures manual, their hiring does not trigger an update of the manual.

2) Who should have access to the policy and procedures manual?

- A. Incorrect. By limiting the manual to managers, your processors will not have a reference guide should they need to check on a rarely used procedure.
- B. Incorrect. By limiting the manual to processors, others in the organization who might need to see it will not have that opportunity and as a result may make mistakes.
- C. **Correct.** Anyone who might need to see the manual should have access to it. That is the best way to insure maximum value given the time and effort that go into preparing one.
- D. Incorrect. If upper management is the only group to have access to the manual, it will be of little use at all.

Creating An Effective Accounts Payable Policy & Procedures Manual

Chapter 2 Creating the Manual

Learning Objectives:

- Show how to create a policy and procedures manual
 - Demonstrate several ways to start creating a manual from scratch
-

While the task of creating a manual may seem monumental, it doesn't have to be. In this section we take a look at several ways to take on this task in a manageable way – so the task does not become overwhelming.

No Policy and Procedures Manual? Three Ways to Get Started

Are you in one of these situations? You know you should have a detailed policy and procedures manual for your accounts payable operations but you don't have one. Or perhaps you do have one, but it hasn't been updated since before you started using email. Or even worse, you know the information in your manual bears no resemblance to the work currently being performed in accounts payable. Whatever the reason, a growing number of professionals are finding themselves faced with the onerous task of creating a policy and procedures manual from scratch and the project seems overwhelming. But there's no need to panic. We've got a few ideas on how you can wade through this morass and produce a respectable manual. However, before we get to our ideas, let's take a look at why it is so important to have a manual.

The Rationale for a Policy & Procedures Manual

Policy and procedures manuals are important for several reasons. For starters, the manual documents exactly how your accounts payable operates. It should cover every little detail. This is critically important if you are following the recommended best practice of standardizing your procedures. Standardization is important if you want to minimize or perhaps even eliminate duplicate payments. If all your processors handle invoices in exactly the same manner, you will have taken a giant step towards eliminating duplicate payments.

Once you have a detailed accurate policy and procedures manual it will serve as a valuable training tool. Not only will new employees be able to utilize it as they learn the ropes, your existing employees will be able to refer to it any time they are not quite certain how to handle a particular issue. Most departments have certain tasks that are only performed a few times a year. A detailed updated policy and procedures manual will guide your staff on the right way to handle each of those jobs.

And finally, for our readers working for public companies, there are Sarbanes-Oxley considerations. Having a manual is one step towards demonstrating appropriate controls, assuming it has been updated recently.

Keeping It Updated

Once the manual is completed, don't put it on the shelf and forget about it. For starters, it should be shared with all your processors and anyone else who might need access. Small

Creating An Effective Accounts Payable Policy & Procedures Manual

portions of it should be published and widely disseminated. This will include portions like your check cut off dates and your yearend schedule. If you have an Intranet for company use only, the manual might be posted there.

Any time you change your processes, make sure to update the policy and procedures manual. This not only includes process improvements but also big technology changes. Updating the manual should be part of any big project. Finally, don't forget to periodically ask processors for recommendations for changes.

At least once a year, review the manual to make sure it still reflects the processes in use in the accounts payable department. In many cases small process changes are made and no one thinks to update the manual.

Finally, should a major change be made, especially one affecting other departments, consider issuing an update email reminding all those impacted by the changes of the ramifications. For example, if you change your cutoff times, you might want to alert everyone who sends invoices in for payment. These updates might go to your employees and in some instance they may also go to your vendors.

Your policy and procedures manual can serve as the backbone of any accounts payable department but only if it accurately reflects the work being done there. It is up to the manager to see that it is kept updated so it can do its job adequately.

A Straightforward Plan to Update the Accounts Payable Policy & Procedures Manual

Policy and procedures manual have a lot in common with wills. We all know we should have one and should periodically update it, but few of us keep it updated once we *finally* get around to getting it done. Now, in light of Sarbanes-Oxley with its onerous documentation requirements, the manual is something every accounts payable department should have. Of course, most readers don't need an Act of Congress to make them aware that they should have a written manual. What follows is a simple step-by-step plan anyone can follow. While the theory is simple, we are the first to concede that executing it is not.

Step one: Find your old policy and procedures manual and dust it off.

Alternative step one: If you don't have an existing manual, or if the one you have is so out of date, it is hopeless, begin by making a list of all the topics to be covered. See The Sample outline in the Appendix.

Step two: Review the manual and mark off all processes that have changed.

Step three: Make a note of new processes that need to be added.

Step four: Either assign one person to make all the changes or better yet, assign different sections to different staff members. Ideally the assignments should match their responsibilities.

Step five: Set a deadline when the draft material is due back. Make sure everyone is aware of the deadline.

Step six: A week before your deadline, send a reminder e-mail to everyone working on the project.

Step seven: Two days before your deadline, send another reminder e-mail.

Step eight: Collect all sections and review. If you disagree with anything written, discuss it with the author.

Creating An Effective Accounts Payable Policy & Procedures Manual

Step nine: Have all changes reviewed. Do this by giving each section to someone other than the person who wrote it.

Step ten: Resolve any discrepancies.

Step eleven: Verify that what is written in the manual is actually how the work is being processed in your department.

Step twelve: Publish and publicize. If at all possible, the manual should be put on your company Intranet site with access given to any employee who might need it. Highlight your check production and cut-off schedules.

Step thirteen: Thank everyone who was involved.

Step fourteen: Every six or twelve months, repeat the process.

No Shortcuts Available

While the Internet is a good source of information, this time it will not come to the rescue. Unfortunately, this is not one of those situations where you can take someone else's manual and copy it. If you do, you'll have a manual but it won't reflect your operations. And that is not a good thing—especially if your auditors come in for a review and want to see your documentation.

Similarly, purchasing one of the manuals available for sale from some publishers will have the same drawbacks. Those policies won't cover what's done in your shop. And one of the reasons that accounts payable is so complex is that no two organizations handle it exactly the same way.

Tips for Creating A User-Friendly Accounts Payable Policy and Procedures Manual

All well-run accounts payable departments have accounts payable policy and procedures manual. The best ones serve as a training and reference tool for everyone who works in or with accounts payable. An effective policy and procedures manual should contain clear simple instructions and not much else. This is not the place for long missives on philosophy or corporate policy. This is simply a big how-to book. It is not a place to show off creative flourishes or flights of whimsy. The following guidelines will help you produce a manual that can be used to run an effective and efficient accounts payable function.

1. Begin with a bare bones outline listing all accounts-payable-related topics to be covered.
2. Use your outline to create a Table of Contents, breaking information into appropriate sections.
3. Keep the sentences describing your instructions short. Break longer procedures into a few short steps.
4. Avoid run on sentences. Review what you've written and break long sentences into two or three shorter ones.
5. Use lots of bulleted and/or numbered lists (i.e. Step 1, Step 2 etc.).
6. Include examples wherever possible especially when the concepts are not crystal clear.

Creating An Effective Accounts Payable Policy & Procedures Manual

7. If you include jargon or abbreviations, make sure they are spelled out. Better yet, avoid the jargon and abbreviations, if at all possible.
8. Include footers that number your pages.
9. As the next to last step, run spellcheck to find misspelled words. Be careful. As you are probably aware, spellcheck will sometimes try and change words it doesn't recognize to common words.
10. As your last step, go through your document and put the relevant page numbers on your Table of contents page in the front.

You can use these guidelines both to create your manual in the first place as well as when you update it on a regular basis.

Review/Solution Questions - Answers Immediately Follow

1) When you have finally finished a new manual, the manager should do which of the following? (Please select the best response).

- A. Publish it
- B. Publicize it
- C. Both of the above
- D. Neither of the above

2) Which of the following is recommended as a technique for creating an effective accounts payable policy and procedures manual?

- A. Use long detailed explanations
- B. Use bulleted lists
- C. Both of the above
- D. Neither of the above

Creating An Effective Accounts Payable Policy & Procedures Manual

Review Answers

1) When you have finally finished a new manual, the manager should do which of the following? (Please select the best response).

- A. Incorrect. While publishing the manual is important, it is not the only tactic the manager needs to use when it is complete.
- B. Incorrect. While publicizing the manual is important, it is not the only tactic the manager needs to use when it is complete.
- C. **Correct.** To be effective, the new manual must be both publicized and published.
- D. Incorrect. To be effective, the new manual must be both publicized and published.

2) Which of the following is recommended as a technique for creating an effective accounts payable policy and procedures manual?

- A. Incorrect. If you use long detailed explanations in your manual, people are apt to lose interest and then forget what was said.
- B. **Correct** Using bulleted lists makes it easier for employees to follow what is being said and integrate the various tasks into their day-to-day processes.
- C. Incorrect. While it is important to include bulleted lists to make it easy for employees, long detailed explanations are apt to lose their attention.
- D. Incorrect. Neither of the above

Creating An Effective Accounts Payable Policy & Procedures Manual

Chapter 3: Using the Manual

Learning Objectives:

- Show how to use the manual to address the rush check problem
- Identify several short cuts to use when creating a policy and procedures manual

The manual is more than a static document prepared because you know you're supposed to have one. It is a document that can help run a more efficient operation. In this section, we take a look at how it can help as well as several shortcuts you can take to put together a manual that reflects your organization's actual practices.

Getting a Manual Produced Quickly

There are three different approaches you can use to jump start the production of an accounts payable policy and procedures manual. You can combine pieces of each approach, if appropriate.

1. Download one and update it to match your current processes. Many colleges and universities have their policy and procedures manuals posted on their Internet sites. If you download several you can either select the one that best fits your organization and then update it or you can take pieces from several different manuals. Be extremely careful to make sure you replace the original organization's name with your company's name and that you review it carefully and mark off all places that need to be changed. You may have to add sections if the manual you select does not address the issues you have.
2. The outline approach works especially well for those organizations that have a good number of unique routines. Start with an outline for the manual listing all the topics you want to cover. We have provided one in the Appendix section. Review the outline and cross out the topics that don't apply to your department and add any that may be missing. The outline can then be broken into pieces, with each staff member taking several sections. With a number of people working on the project it will not seem as overwhelming as it might if one person had to write the whole manual in addition to their regular work. After each person has finished their section have another staffer review it for accuracy. To finish off the project you might have one of your better writers do a light copy edit correcting any grammatical mistakes.
3. Get an intern. Provide them with the outline and give them access to your people to watch, learn and write. Of course, once the intern has finished the draft of the manual, someone should review it for accuracy. A variation on this approach is to have a new hire complete the manual as part of their training, before they begin their regular assignment.

Teaching an Old Dog New Tricks: 5 Tips to Enforcing Policy Changes

Whether it's your travel and entertainment policy, the way your p-cards are used or how you expect vendors to interact, getting people to change is not an easy task. They get set in their ways and don't want to change. And, let's face it; in all likelihood your change is not

Creating An Effective Accounts Payable Policy & Procedures Manual

going to be something they are happy about. Employ the following five steps and your changes should be accepted with a little less complaining and shenanigans.

Step 1 *Have the change signed by someone with authority.* This ensures that no one will try and do an end run around the accounts payable department, getting approval to ignore the new policy from a higher level executive.

If the change is likely to affect everyone in the company, having the new policy announced under the signature of the CFO or COO or even the CEO is a great way to ensure compliance. If the change is going to affect only the accounts payable staff, having the policy signed off on and announced by the accounts payable manager might do the trick in some cases and in others the controller might need to be the one whose signature goes on the new policy. Finally, if you are trying to make a change affecting your vendors, make sure you get purchasing on board. The announcement to the suppliers could be signed by a finance/accounting and procurement executive.

Step 2 *Spell out exactly what the new policy is.* Don't assume everyone knows what you mean. Inevitably there will be a few people who don't see things the way you think they should. So, don't give them any wiggle room.

Step 3 *Set an effective date.* Don't give them the chance to claim ignorance as to when the policy was to be implemented. Effective immediately might seem good enough, but it might not be enough. You might even mark the effective date the day before you send your announcement to fully avoid any games.

Step 4 *Spell out the consequences for not adhering to the policy.* If there are no repercussions for not complying, you'll have less than 100% compliance. For example, if you are announcing a policy of not paying for charges put on personal cards, say "we will no longer reimburse employees for charges put on their personal cards."

Step 5 *Make sure everyone understands you intend to enforce the new policy.* You would think by announcing the consequences of noncompliance, employees would get the message. Most will, but not everyone. Expect there will be at least one case, if not more, where employees will test you. In order to make the policy stick, you are going to have to refuse someone's charges on the personal card. For, if you don't, you'll have numerous employees ignoring the policy. However, if one or two employees end up eating charges put on personal cards, everyone will get the message.

Step 6 *Make sure everyone affected by the change is included in your communication.* This is especially true if you have admins who complete expense reimbursement reports for their bosses. Again, by including everyone in the distribution of the announcement of the policy change there are no loopholes employees can try and crawl through.

Implementing a change in policy is rarely and easy task. Using these simple guidelines will make the process just a little bit easier.

Help from the Manual

Accounts payable in many organizations have trouble with rush checks. These are checks drawn outside the normal check-production cycle to accommodate emergencies or unforeseen expenditures. In most organizations it is not possible to get completely away from these, especially if checks are run only once a week or twice a month. However, the

Creating An Effective Accounts Payable Policy & Procedures Manual

process is often abused, to the detriment of the organization's internal controls.

In many cases, rush checks are requested over and over again by individuals who are negligent in their own responsibilities. They don't approve an invoice in a timely manner, and then, when the vendor is screaming, they demand that accounts payable issue a rush check. While most accounts payable departments are willing to help out once in a while, they grow weary of bailing out the same individuals over and over again. Yet, in some organizations, management refuses to back them in their request that rush checks be extremely limited.

This is where the policy and procedures manual can come to the rescue, if used judiciously and correctly. The first thing to do is to make sure that the check-production schedule and cycle is documented in the manual. Then make sure it is shared with all affected parties and/or posted on the intranet.

It wouldn't hurt if you also get the external auditors to make some suggestions regarding the inappropriateness of rush checks and their impact on internal controls. Then, when the next request comes, as you know it will, bring up the posted manual and your desire to not do anything that could subject the company to problems with its Sarbanes-Oxley audit. Will it work? It depends on the corporate culture. And even if it doesn't work, I'm willing to bet that the individual requesting the check, in most instances, will come back less frequently. The key words here are "breakdown in internal controls" and "Sarbanes-Oxley audit."

Creating An Effective Accounts Payable Policy & Procedures Manual

Review/Solution Questions - Answers Immediately Follow

1) To ensure everyone follows the new policy and procedures manual, it should do which of the following? (Please select the best choice).

- A. Spell out the new policy
- B. Set an effective date for any changes
- C. Be signed by a high level executive
- D. All of the above

2) Which of the following is not a tactic that will get a policy and procedures manual started quickly, when there is no existing one to update?

- A. Download one from the Internet to use for revisions
- B. Purchasing a manual for use for revisions
- C. Taking another department's manual and revising it
- D. Copy someone else's manual and revise it

Review/Solutions Answers

1) To ensure everyone follows the new policy and procedures manual, it should do which of the following? (Please select the best choice).

- A. Incorrect. While spelling out the new policy is important, it is only part of the process any organization needs to undertake to make their new manual successful.
- B. Incorrect. While spelling out an effective date for any changes is important, , it is only part of the process any organization needs to undertake to make their new manual successful.
- C. Incorrect. While having a high level executive a high level executive sign the policy to signify its importance, , it is only part of the process any organization needs to undertake to make their new manual successful.
- D. **Correct.** All of the items discussed above are important when it comes to having a successful manual.

2) Which of the following is not a tactic that will get a policy and procedures manual started quickly, when there is no existing one to update?

- A. Incorrect. Download a manual from the Internet to use for revisions that match what your organization does is one way to get started.
- B. Incorrect. Purchasing a manual for use for revisions that match what your organization does is one way to get started.
- C. **Correct.** Taking another department's manual and revising it will not help. It will have no procedures related to accounts payable and will be a complete waste of time.
- D. Incorrect. Copy someone else's manual and revising it so it matches what your organization does is one way to get started.

Creating An Effective Accounts Payable Policy & Procedures Manual

Chapter 4: The Segregation of Duties Issue

Learning Objectives:

- Delineate the segregation of duties requirements for the accounts payable function for inclusion in the policy and procedures manual
 - Show how computer access levels may circumvent segregation of duties requirements
-

One of the basic tenants of a well-run function, no matter what department, is the integration of appropriate segregation of duties. This sometimes gets overlooked in the rush to get the various tasks associated with the accounts payable function completed. This is unfortunate because this makes it easier for those few employees who commit fraud. That's because they know all too well where the internal control weaknesses are within your system.

When putting together the accounts payable policy and procedures manual, make sure you check for appropriate segregation of duties throughout the entire procure-to-pay function. If one employee can handle more than one leg of the transaction, controls are weakened and fraud becomes just a little bit easier to commit.

The segregation of duties issue in accounts payable is especially difficult to handle appropriately when the department is small. With advances in automation we are seeing the size of the typical accounts payable department shrink. While this is to be expected and there is nothing wrong with smaller departments, it makes the segregation of duties issue a bigger challenge. Organizations that didn't have this problem ten years ago are starting to face it in a very real way. For this reason, occasionally you'll see tasks that might have been handled in accounts payable being moved to different departments. This is fine as long as the tight controls and processes used in accounts payable are used when the function is handled elsewhere.

Don't Overlook Segregation of Duties Requirements

The policy and procedures manual is a great place to check to make sure you have duties separated appropriately in your accounts payable function. Checks and balances are extremely important in accounts payable. After all, your accounts payable staff has access to your organization's money. Most experts recommend that tasks be assigned so that one individual would not have access to several functions that would effectively allow that person to steal without another's knowledge. True, this can be overcome if there is collusion, but that is harder to achieve.

Some functions that should be segregated in accounts payable are:

- The person responsible for bank reconciliation should not:
 - Handle unclaimed property reporting

Creating An Effective Accounts Payable Policy & Procedures Manual

- Be a signer on a bank account

- The person who is a check signer should not:
 - Authorize an invoice for payment on an account that he or she is also a signer
 - Have ready access to the check stock

- A person who is responsible for the check stock should not:
 - Be an authorized signer
 - Handle the bank reconciliations

- The person who is responsible for the master vendor file should not:
 - Be an authorized signer
 - Be able to approve invoices for payment
 - Handle unclaimed property

- The person responsible for unclaimed property should not:
 - Have responsibility for bank reconciliation
 - Have access to the master vendor file

Readers are advised to make sure that the appropriate separation of duties is maintained even after promotions. Too often when a person is promoted from within, a practice we heartily endorse, no one thinks to cut off their systems access associated with their old position. Unwittingly, firms that neglect to do this end up with poor separation of duties and hence, weakened controls.

As you review your own operations, you will probably be able to come up with additions to this list.

Segregation of Duties: How Much Access Do Your Employees Really Have?

How good is your segregation of duties assessments? There's an issue that often gets ignored and it affects segregation of duties. Does your organization actively encourage promoting from within? Many do and to be honest Accounts Payable Now & Tomorrow thinks it's a great idea. When you hire from within you get an employee who knows the organization, has a proven track record as well as one who knows and understands the corporate culture. However, if you do not take the right steps, you could unintentionally create a segregation of duties nightmare.

The Potential Scenario

Now, we are going to concede right up front, that we are presenting a worst case scenario. We are doing this simply to make the point, not that we think this situation is commonplace. Let's say someone joins your accounts payable department in the most junior level invoice

Creating An Effective Accounts Payable Policy & Procedures Manual

processing position. They are given access to enter invoices in your computer system. That is all. After a few years of sterling performance, the person is promoted and now is responsible for printing checks. They are given access to the check creation part of the process.

After a year or two of thanklessly printing checks for the organization, they are promoted to handle your master vendor file. They set up new vendors and make changes where needed to existing vendors.

Do you see the problem? If the employees' access to the system is not terminated when they leave each job and move to the next, you now have an employee who can create a vendor in the master vendor file, process an invoice and print a check.

The Solution

Clearly, we need to cut employees access whenever they leave a job. This means not only when they leave the company but also when they move to a new position within the organization. Just imagine how many accesses an employee who has been with an organization for 20 years might have.

The above suggestion solves the issue going forward. But what about the mess you might have on your hands now? A report should be run showing what access each employee has. It should be matched against what access is required by the person's current position.

Once you've uncovered your list of extra accesses review it carefully. Before automatically cutting everyone's unneeded access, let them know what you are doing. You should expect to get some flak from some of the folks on the list. Just because they are not supposed to have access doesn't mean they aren't using their unauthorized access. It might make their job easier or they may be supplying information to others higher up in the organization.

It is a good idea to run this report once a year just to make sure the segregation of duties is complete and no problems have crept in. Similarly, it is smart for those who normally terminate access to run the report to make sure it is always done.

As you probably realize, this is not just an accounts payable issue but one that affects all departments within your organization. If you find problems with extra accesses in accounts payable, you might want to bring the issue to the attention of the controller and/or CFO as it is likely the problem is not a local one but one potentially affecting every department within the firm.

Six Common Procedures that Enable Internal Check Fraud: Fix Them with Your Policy

Did you know that certain sloppy practices, especially when it comes to checks, actually make it easier for employees to commit check fraud? Allowing these practices to continue is effectively enabling the fraudsters who might be lurking in your corridors. And these are all things you can change without spending a cent. So what are these easy-to-fix processes? Fix them and make sure they are addressed in your policy and procedures manual as well.

#1 Allowing checks to be returned to the person who requested them. Without a doubt, this is the biggest enabler of them all. And, sadly, it is a practice permitted in many, many organizations. While we concede there are rare occasions when the checks do need to be

Creating An Effective Accounts Payable Policy & Procedures Manual

returned, they are few and far between. We recommend that any organization allowing it develop a form to be included with the check. The form should be filled out by the person requesting the return and a very senior executive should sign it. It should contain a place for the person to enter the reason the check must be returned and not mailed. The form works in two ways to deter fraud. First, few employees will want to get it signed unless the check really must be returned. And, second, a crook will think twice (hopefully) about documenting the request if he or she intends to steal the check. Few thieves want to draw attention to themselves.

#2 Permitting rush or ASAP checks in all but the most urgent circumstances. When the data is analyzed, rush checks represent a disproportionate share of both fraudulent checks and duplicate payments. The reason is simple. Crooked vendors know if they call an organization's accounts payable department and threaten to put the company on credit hold, the chance of a rush manual check being issued is high. So that is exactly what they do. Even if the call is legitimate, the chances are a second or third invoice has been issued before the vendor got desperate enough to call and demand a rush check. Inevitably, the original invoice eventually makes its way into accounts payable and sometimes gets paid. Part of the reason for this is that the manual process sometimes results in records not be updated or entered correctly.

#3 Lack of appropriate segregation of duties. Whenever one employee is authorized to perform two tasks that serve as checks and balances to each other, it increases the risk of fraud. So, making someone a check signer and giving them access to check stock or the ability to approve an invoice increases the ease with which they could commit check fraud, should they so desire. Therefore, especially when it comes to an organization's money, appropriate segregation of duties is crucial.

#4 Giving high-level executives access to everything. In some ways, this is a subset of the issue discussed above. There are organizations that go out of their way to set up the appropriate segregation of duties and then give either a high-level executive or the accounts payable manager access to everything. This completely negates all other blocks. When questioned about it, inevitably the response is that the person in question is a trusted employee. Well, guess who commits most internal fraud? Long-term trusted employees!

#5 Making all high-level executives authorized signers. In some organizations all vice presidents are put on bank accounts as signers, even if they never sign and check signing is not part of their job. As in the discussion above, this can negate the segregation of duties the organization strove to set up.

#6 Poor master vendor file practices. So many organizations ignore their master vendor file not realizing they are providing the perfect hiding place for employees looking for ways to defraud them. This is especially true when the file is never cleansed and vendors not used in over 12 or 14 months are not deactivated. It is easy to put this task off when other issues are pressing. But don't; you are only asking for trouble by leaving inactive vendors in the file. Use of strict coding standards also helps. When was the last time your master vendor file was cleansed?

As we said at the beginning, these practices are fixable at virtually every organization—and the fix doesn't cost a red cent.

Creating An Effective Accounts Payable Policy & Procedures Manual

Review/Solution Questions - Answers Immediately Follow

1) The person responsible for the master vendor file, should have be able to do which of the following? (Please select the best response.)

- A. Be an authorized signer
- B. Approve invoices
- C. Handle unclaimed property matters
- D. All of the above

2) To ensure no segregation of duties issues crop up, which of the following should you do? (Please select the best response)

- A. Run a report showing who has what system access to identify conflicts
- B. Ask managers if they know of any segregation of duties conflicts
- C. Ask the staff if they are aware of any segregation of duties conflicts
- D. All of the above

Review Answers

1) The person responsible for the master vendor file, should not be able to do which of the following? (Please select the best response.)

- A. Incorrect. While those with access to the master vendor file shouldn't be authorized signers, that's not their only limitation.
- B. Incorrect. While those access to the master vendor file shouldn't approve invoices, that's not their only limitation.
- C. Incorrect. While those access to the master vendor Handle shouldn't handle unclaimed property matters, that's not their only limitation.
- D. **Correct.** To achieve appropriate segregation of duties, all of the tasks mentioned above should be off limits to the professional responsible for the master vendor file.

2) To ensure no segregation of duties issues crop up, which of the following should you do? (Please select the best response)

- A. **Correct.** Running a report showing who has what system access is a great way to identify conflicts related to appropriate segregation of duties.
- B. Incorrect. While asking managers if they know of any segregation of duties conflicts may help you identify some problem areas, it is unlikely to result in an identification of all problems.
- C. Incorrect. While asking the staff if they are aware of any segregation of duties conflicts may help you identify some problem areas, it is unlikely to result in an identification of all problems.
- D. Incorrect. Only the running of a report showing who has what system access will definitively identify all problem areas. The other responses, while they might provide some information, in all likelihood will be lacking.

Creating An Effective Accounts Payable Policy & Procedures Manual

Chapter 5: Reviewing and Updating Your Policy and Procedures

Learning Objectives:

- Prepare an action plan to review and update an old policy and procedures manual
 - Identify often-overlooked changes that will improve accounts payable procedures
-

Updating Your Accounts Payable Policy and Procedures Manual

Your policy and procedures manual should be updated any time you make a change in policies or procedures. In addition, at least once a year, the manual should be reviewed in order to make sure it still represents what the department is doing and incorporates strong controls and best practices into the functionality of the department. For in most cases, if the manual is updated because of a change in procedure or policy, only that section is updated. Typically, no one bothers to look at the rest of the manual. This is unfortunate because sometimes a change in one process will have implications elsewhere in the department.

An annual review of the accounts payable policy and procedures manual is one way to ensure an organization stays on top of best practices, which have been changing rapidly over the last few year. What follows is a 12-step plan any organization can use to make sure its manual is current and its processes employ best practices and incorporate strong internal controls.

Step 1: Review the manual with an eye to confirming that your processors are doing exactly what is spelled out in the manual. This means monitoring a few of them. This is something you should do on a regular basis anyway to ensure no errors slip into your processes. Once you are confident that the current manual represents the current work process, you are ready to move on.

Step 2: If in your review process you determine that one or more of your employees are not following the processes as described in your accounts payable policy and procedures manual, evaluate what they are doing. If it turns out that their way is better, consider incorporating it into the entire department's process. However, if it is not, instruct them on the proper procedures and follow up periodically to make sure they do not slip into their old ways.

Step 3: Once you are confident the manual represents current processes, consider if you want to make any changes to address changing best practices. Increasingly we are seeing best practices evolve, especially when it comes to the accounts payable function. Part of this is due to automation, but increasingly sophisticated fraudsters as well as increased regulatory pressures are all making an impact. Identify both the new best practices you want to incorporate as well as existing practices that either no longer work or don't provide the control they once did. A simple example might be the practice of insisting on original

Creating An Effective Accounts Payable Policy & Procedures Manual

invoices and not taking any copies or faxed invoices. This was used in the past to guard against duplicate payments. Thanks to technology this approach no longer offers any control as you can have many copies that look like an original (Think pdfs.)

Step 4: Before adjusting your current procedures to incorporate new ones and eliminate weak ones, evaluate them to ensure they won't disrupt your current work cycle. You also want to analyze if the changes will affect other departments and if they do, discuss the changes with them. As with any new change, you want to ensure you are not making things run a little smoother in accounts payable at the expense of adding work to another department.

Step 5: Before you formally incorporate the new procedures into your routine, discuss them with the staff who will have to implement and work with them. The reason for this is that the people who handle the work on a day-to-day basis have a much better understanding of the process than the managers. Take advantage of their expertise. Ask them if they see any problems or snafus. Of course, you'll have to guard against those employees who are reluctant to change and see problems any time you want to adjust the workflow. However, by getting them involved early on, they may surprise you and become the biggest supporters of the new process.

Step 6: If you decide to change procedures, evaluate not only if it will make the accounts payable function more efficient, but also its impact on other departments. Will the change make their jobs more difficult or deprive them of information they need to do an effective job? It is probably a good idea to discuss the changes with all affected departments. The manager doing the review might not be aware of everything other departments do with the information they get from accounts payable or how it integrates with their responsibilities.

Step 7: Once you are confident that the change is a good one, write it up for incorporation into the manual. You can either do it yourself, or have someone on staff with good writing skills do it.

Step 8: Have the new write-up reviewed by those who will use it, departments affected by the change and perhaps even internal audit to ensure it works as you anticipate.

Step 9: Once the new process is written up and approved, gather your staff for training. Make sure everyone who needs to use the new process understands how it will work.

Step 10: Decide on an implementation date. This is the date everyone will start using the new procedure. Make sure the staff knows they all should start at the same time. Having a few people start early is usually not a good idea. To ensure no errors are introduced, everyone should start at the same time.

Step 11: Take one last look through your manual to make sure you've adjusted everything that needs to be adjusted. This means incorporating new procedures and policies, eliminating ones that no longer apply and making sure you adjust all areas affected by your changes.

Step 12: You might also take this time to review all reports generated by the department and evaluate whether they still need to be done. If you are not using the information in accounts payable, check with the other departments who are receiving the reports. Do they need the information? Is there another source of this information they could rely on? Too often, if companies don't regularly look at their reports they find that they produce reports, sometimes for years, which no one uses. That is a real waste of time, talent and resources.

Creating An Effective Accounts Payable Policy & Procedures Manual

The review of the accounts payable policy and procedures manual does not have to be done at year-end. It can be done at any point during the year. However, it is one of those tasks, like cleansing the master vendor file, which tends to get pushed to the bottom of the To-Do list and often ignored for years on end. By including the review as part of the year-end process, companies ensure that if they haven't addressed the issue during the year, it doesn't get completely ignored.

Five Often-Overlooked Practices that Should be Incorporated into Your Policies

You've heard the old adage, work smarter not harder. Sometimes we've been doing things a certain way for so long in accounts payable, it never occurs to us to try another approach. That's where the smarter issue comes in. Sure, it's possible to improve productivity if you spend a lot of money, but that's not what we're talking about. Let's take a look at five practices that would make any accounts payable function run a little more efficiently—and won't require special budget allocations to do so.

1. Start accepting invoices both by e-mail and fax. For many years, companies refused to do this because they were concerned about duplicate payments. But now, we know that it is possible to have originally looking documents that are actually copies so not paying from a copy does not provide the protection it once did. By accepting invoices by email and fax you speed up the mail time making it easier to earn early payment discounts. What's more, if you are scanning invoices, an emailed invoice removes the need to scan.
2. Get rid of petty cash boxes, if you still have them. Anecdotal evidence suggests that approximately one-quarter of all organizations still have petty cash boxes. They are huge time wasters, are rarely in balance, and may tempt employees with financial issues. By eliminating petty cash boxes you will make the accounts payable function more efficient and you'll strengthen internal controls. And as an added benefit, your staff will probably be thrilled not having to deal with the sometimes questionable reimbursement requests.
3. Return invoices addressed inappropriately/addressed to no one to the vendor with a polite letter explaining that in order to process invoices efficiently it is imperative that every invoice contain the name of the requisitioner or a purchase order number. Without one of these vital pieces of information, your staff will waste time trying to figure out who ordered the item. You'll also eliminate those fraudulent invoices sent by crooks hoping to entice you to pay.
4. Develop and use strong coding standards for invoices and data entry in the master vendor file. Put it in writing and insist everyone use it. This simple approach will eliminate a good portion of potential duplicate payments. Don't assume everyone would use the same abbreviations as you would. They won't. And, by putting it in writing and giving a copy to every processor, they can refer to it if they have any questions.

Creating An Effective Accounts Payable Policy & Procedures Manual

5. Eliminate as many paper checks as you can. This can be done by moving small dollar items to p-cards and trying to pay as many vendors as possible using ACH. Paper checks are incredibly inefficient; they require a lot of manual handling, get lost in the mail and are expensive, to boot. On the other hand, electronic payments require no manual handling, are less expensive than paper checks and have very few or no unclaimed property issues.
6. Don't play favorites with employees from other departments (or for that matter from your own). Don't make exceptions against policy based on how much you like a person. For example, if you always do Rush checks for Jane in accounting, other employees will expect similar treatment. If you don't extend them the same courtesy there's bound to be a lot of complaining and grumbling and accounts payable's image will take a hit. What's more, eventually other groups will figure out who your favorites are and those people will be recruited to come down and ask for exceptions for the rest of their department. Often, when accounts payable plays favorites, it is thought that no one knows. But, like all other gossip in an organization, it spreads faster than anyone might imagine.
7. Don't entertain special requests from vendors to pay them faster than the payment terms agreed to in their contracts. More than occasionally, a vendor will call and ask/demand to be paid more quickly than agree upon terms. Sometimes they'll claim someone in purchasing promised this. Other times, especially when they have gotten to know the processor handling their account well, they'll simply ask for a special favor trying to convince the processor to enter an early due date. While you want your processors to have good relations with your vendors, these relations need to be arm's length and not result in inappropriate actions. This is the first step down that slippery path of fraud due to collusion. While a processor putting something in for payment earlier than it should be paid is not a guarantee that fraud will occur in the future, it is a poor practice and should not be tolerated. Preventing this type of familiarity is another reason for regularly rotating processors.

As you can see, none of the above recommendations require budget allocations. All can be implemented without spending any money. Okay, the not accepting invoices without the name of the requisitioner or a purchase order number does require a postage stamp and an envelope. But you can use a form letter and you don't need budget approval for postage stamps.

These are just a few examples of strategies any organization can implement in their accounts payable department to make it a little more efficient. And, we're certain, if you put your mind to it, you can identify a handful of other practices that will improve departmental productivity without incurring a huge expense.

Creating An Effective Accounts Payable Policy & Procedures Manual

Review/Solution Questions - Answers Immediately Follow

1) How can you make sure your current accounts payable policy and procedures manual matches your current practices?

- A. Ask your employees if they are doing exactly what is in the manual
- B. Email processors reminding them to use the practices outlined in the manual
- C. Watch each processor for some time to determine if what they are doing matches the manual
- D. All of the above

2) Why is it problematic if you play favorites when it comes to honoring requests for Rush checks?

- A. Resentment will build with those who are not treated equally
- B. Departments will send your favorites down with requests to get around accounts payable
- C. It really is not fair
- D. All of the above

Review Answers

1) How can you make sure your current accounts payable policy and procedures manual matches your current practices? (Please select the best response)

- A. Incorrect. If you ask your employees if they are doing exactly what is in the manual, they are likely to respond positively – regardless of what they are actually doing.
- B. Incorrect. Email processors reminding them to use the practices outlined in the manual is not a bad idea but it does not guarantee they are following the manual completely.
- C. **Correct.** By watching each processor for some time, you will be able to determine if what they are doing matches the manual.
- D. Incorrect. While the ideas presented above are not bad, they will not provide you with the information you need to verify that the manual is being followed.

2) Why is it problematic if you play favorites when it comes to honoring requests for Rush checks? (Please select the best response)

- A. Incorrect. While resentment will build with those who are not treated equally, that is not the only problem you'll have.
- B. Incorrect. While departments will send your favorites down with requests to get around accounts payable, that is not the only problem you'll have.
- C. Incorrect. While this tactic is really is not fair, what's worse are the problems it will create.
- D. **Correct** Playing favorites is clearly not a good practice for all of the reasons discussed above.

Creating An Effective Accounts Payable Policy & Procedures Manual

Appendices

Diagnostic: How Good Is Your Policy and Procedures Manual?
A Discussion of the Best Practice Responses to the Diagnostic
Sample Outline for an Accounts Payable Policy and Procedures Manual

Diagnostic: How Good Is Your Policy and Procedures Manual?

When it comes to running an efficient, effective, fraud-resistant, regulatory compliant accounts payable function, an updated policy and procedures manual is critical. Not only does it lay the foundation for how the work of the department is to be completed, it serves as a valuable resource tool should a worker have a procedural problem. Yet, many organizations don't have a good manual in place. Do you? Use AP Now's Policy and Procedures Manual Diagnostic to figure out if your manual needs just a minor tweaking or a major overhaul.

AP Now's Best Practice Policy and Procedures Manual Diagnostic

1. Do you have a policy and procedures manual for the accounts payable function? Yes No
2. Has it been reviewed and updated within the last 12 months? Yes No
3. Does the manual accurately reflect the way your processors handle invoices? Yes No
4. Does the manual clearly spell out your cut off dates? Yes No
5. Has your manual been reviewed and updated to ensure it complies with IRS guidelines for 1099 Reporting? Yes No
6. Has your manual been reviewed and updated to ensure it complies with IRS guidelines for reporting payments made to foreign suppliers? Yes No
7. Has your manual been reviewed and updated to ensure it complies with current sales and use tax guidelines? Yes No
8. Has your manual been reviewed and updated to ensure it complies with current unclaimed property reporting and remitting laws? Yes No
9. Has your manual been reviewed and updated to ensure your internal controls are strong and appropriate? Yes No
10. Has your manual been reviewed and updated to ensure proper segregation of duties are being employed in the entire payment function? Yes No
11. Have you given each processor a copy of the manual? Yes No

Creating An Effective Accounts Payable Policy & Procedures Manual

12. Do you make sure all processors and other affected parties get copies of all updates to the policy? Yes No
13. If T&E are included in your policy and procedures manual, have those sections been reviewed to ensure they meet IRS guidelines for accountable plans? Yes No
14. Does your policy and procedures manual address backup procedures in case of unexpected absences? Yes No
15. Have you made any changes since the last update that are not reflected in the manual? Yes No

A Discussion of the Best Practice Responses

Clearly the correct answer to all the questions was yes, with the exception of the last item which ideally was answered no. Let's take a look at the correct responses and why they are recommended.

1. One of the first steps to employing best practices in any accounts payable operation is to have a policy and procedures manual detailing the procedures used in the department. Without it, processors have to guidelines.
2. The policy and procedures manual is not a static document. It needs to be changed to reflect the changing workflow. And the way things have been changing in the last few years, reviewing and updating within the last 12 months will keep your manual from getting out of date. Those who review and update it even more frequently are to be commended.
3. A manual is only worthwhile if it accurately reflect the way your processors handle invoices. Too often people download one off the Internet. What they end up with is a manual that reflects another organization's practices. If you do download one, you can make it your own by modifying it to reflect your practices. But be forewarned, that can entail a lot of work. It will not be as easy as making a few minor changes.
4. One of the important functions of an accounts payable policy and procedures manual is to clearly spell out your cut off dates. This information is important not only to those who work in accounts payable, but also those who submit items for payment. Share your cut-off schedule generously; it will help avoid problems.
5. The manual should be reviewed and updated to ensure it complies with IRS guidelines for 1099 Reporting. This is becoming an increasingly important issue. So, treat 1099s with the same attention and care you give the rest of the function. And, it is critical your procedures conform to IRS guidelines. This is not a place to take shortcuts.
6. Similarly, if you have foreign vendors, your manual should be reviewed and updated to ensure it complies with IRS guidelines for reporting payments made to foreign suppliers.
7. And, yes, the manual needs to be reviewed and updated to ensure it complies with current sales and use tax guidelines.
8. Unclaimed property is just as important as the other regulatory issues. Your manual should be reviewed and updated to ensure it complies with current unclaimed property reporting and remitting laws.

Creating An Effective Accounts Payable Policy & Procedures Manual

9. By reviewing your manual to ensure your internal controls are strong and appropriate, you are killing two birds with one stone. Shortfalls reflected in the manual highlight a need to tighten controls and revise current procedures.
10. Along the same line, reviewing your manual to ensure proper segregation of duties are being employed in the entire payment function will spotlight potential problems in your current procedures.
11. Each processor should have a copy of the manual or online access to it so they can use it any time they have a question about how to handle a particular issue. The manual is meant to be shared and used.
12. There's no sense updating the manual if you don't make sure all processors and other affected parties get copies of all updates to the policy. So, send around updates to anyone who might need to know.
13. Some organizations include their Travel & Entertainment policy in their accounts payable manual. If so, it should be reviewed to ensure it meets IRS guidelines for accountable plans.
14. The policy and procedures manual needs to focus not only on the day-to-day issues but also backup procedures in case of unexpected absences. By laying out ahead of time what should be done when someone is unexpectedly not there, you'll avoid a lot of the tension and havoc that can accompany these occasions.
15. Making changes in the procedures and not reflecting them immediately in the manual is an invitation to disaster. When manuals were printed and the distribution was a big deal, there was an excuse. But with manual being posted online or distributed as PDF or Word files, there is no excuse for not immediately updating the manual and sharing the information.

So, how'd you do? Does your manual need any updating or reviewing?

Creating An Effective Accounts Payable Policy & Procedures Manual

Sample Outline for an Accounts Payable Policy and Procedures Manual

Overview

- Responsibilities
- Conflict of Interest statement

Authorizations

- Board delegations
- Delegations of authority (further)

Approval Process

- Invoices
- PO

Purchase Orders

- Transmitted to AP
- Stored in AP
- Partial shipments
- Extinguishing the PO

Receiving Documents

- How they are sent to AP
- How they are stored in AP

Mail (postal, email and faxes)

- Sorting
- Review

Invoice Processing

- Where invoices should be sent
- The AP process for entering, reviewing and scheduling for payment
- Three-way match or alternative processes
- Handling disputed invoices
- Handling non-PO invoices

Payments

- Checks
- Printing
- Collating
- Signing
- Mailing

ACH

- Releasing
- Wire transfers

Creating An Effective Accounts Payable Policy & Procedures Manual

Payment policy

- Timing
- Early payment discount
- Late payment fees

Duplicate Payments

- Checking Routines
- Use of 3rd party audit firms

Chart of Accounts

- GL Coding
- Responsibility for GL Coding

Month end Accruals

Freight Payments

Vouchers/ Check request forms

Handling Lost checks

Issuing stop payments

Handling un-cashed checks

Master Vendor Policy

Dealing with Customer Inquiries

Statements

- Policy regarding paying from statements
- Requesting and reviewing vendor statements

Unclaimed property

- Unclaimed property policy
- Investigation of un-cashed checks
- Unclaimed property reporting
- Checking for organization unclaimed property

Reports

- For management reporting
- For departmental evaluation
- For the staff

Creating An Effective Accounts Payable Policy & Procedures Manual

Benchmarking

Check production schedule and cut offs

Check fraud prevention

Positive pay routines

Collecting Vendor Taxpayer Number Information

Policy for requesting W-9

Payments to independent contractors

20 question test

Getting W-9s

Use of TIN Matching

Issuance of 1099s

Information reporting (to IRS)

1042

B-Notices

Payments to non-resident aliens

Review against OFAC list (to ensure non-payments to terrorist)

Internal controls

Recordkeeping

Record retention policy

Filing (by vendor, batch etc.)

P-card policy

Limits

Who gets

Sales and use tax

Handling

Accruing Use Tax

Dealing with State audits

Petty cash

Policy

Refill Requests

Reconciliation

Surprise audits

Policy and Procedures Manual

Responsibility for

Timing of Reviews

Creating An Effective Accounts Payable Policy & Procedures Manual

Updates

Communicating policy to all affected parties

Integration with purchasing requirements

Other special responsibilities handled in AP

Travel and Entertainment Issues addressed separately.

Creating An Effective Accounts Payable Policy & Procedures Manual

Glossary of Terms

ACH – Automated Clearing House

ACH credit – An electronic payment initiated by the payor

ACH debit – An electronic payment initiated by the payee

B-Notice - An annual IRS notification to payers, that IRS Forms 1099 have been filed with either missing or incorrect name/TIN combinations.

Duplicate Payment – The unintentional second payment of an invoice. One type of erroneous payment and unfortunately, rarely returned by the vendor unless the customer or its audit firm discover the over payment.

e-Invoice – An electronic invoice either provided through an automated approach or as simple attachment to an e-mail. Some do not consider files attached to e-mail as true electronic invoices.

Form 1099 – The Form 1099 is used to report different types of taxable income; the most common for the accounts payable groups being Form 1099MISC. This is used to report income paid to independent contractors.

IFO – Institute of Financial Operations

Internal Controls - The group of policies and procedures implemented within the organization to prevent intentional or unintentional misuse of funds for unauthorized purposes.

MCC - Merchant Category Code

NACHA - National Automated Clearing House Association

NAPCP – National Association of Purchasing Card Professionals

P-card – Sometimes referred to as corporate procurement card or purchasing card.

Packing slip – Sometimes referred to as receiving documents, delineates exactly what was delivered in a particular shipment. Used in the three-way match.

PO – Purchase Order

Receiving documents – See packing slip.

S-Ox – Sarbanes Oxley Act

Segregation of Duties – With regards to accounts payable, it is the division of work so that one person does not perform more than one leg of the procure-to-pay function. It is one of the foundation principles of strong internal controls.

Three-way Match – Comparison of invoice with purchase order and receiving documents before payment is made. If there is a discrepancy, some investigation is required to

Creating An Effective Accounts Payable Policy & Procedures Manual

eliminate the discrepancy before payment is made.

T&E – Travel and Entertainment

UCC – Uniform Commercial Code

W-9 – Its full name is Request for Taxpayer Identification Number and Certification and it is provided to customers who need to verify certain tax reporting information.

Creating An Effective Accounts Payable Policy & Procedures Manual

INDEX

- action plan, 3, 25
- annual review. *See* review
- bank reconciliation, 20, 21
- bottlenecks, 9
- Control Standpoint, 4, 7
- controls, 3, 6, 8, 9, 11, 18, 20, 21, 25, 27, 30, 32, 35, 37
- Diagnostic, 4
- duplicate payments, 3, 5, 11, 23, 26, 27, 42
- Enforcing Policy Changes, 4
- flowchart, 7, 8, 9
- Flowchart, 4, 8
- implementation date, 26
- intranet, 7, 8, 18
- invoice-approval process, 9
- lack of uniformity, 5
- loopholes, 17
- master vendor file, 21, 22, 23, 24, 27
- new employees, 5, 11
- new procedures, 26
- Ongoing Project, 8
- Overlooked Practices, 4, 27
- pdf, 26
- primary goal, 5
- review, 2, 3, 7, 9, 10, 12, 13, 16, 21, 22, 25, 26, 27, 31
- rush checks, 17, 18, 23, 41
- Sample Outline, 4, 30, 33
- Sarbanes Oxley Act, 37
- segregated. *See* segregation of duties
- segregation of duties, 3, 7, 20, 21, 22, 23, 24, 30, 32, 41, 42
- Segregation of Duties, 4, 20, 21, 37, 41
- special requests, 28
- T&E procedures, 7
- unclaimed property, 20, 21, 24, 28, 30, 31, 34
- updated, 5, 6, 7, 8, 9, 10, 11, 12, 23, 25, 30, 31, 41
- Updated, 11
- User-Friendly, 4, 13

Creating An Effective Accounts Payable Policy & Procedures Manual

NAME: _____

Email address: _____ please print clearly

Mailing address: _____

You can either fax the exam back to 1-317-219-3223 or scan it and email it back to Registrar@cpaselfstudy.com. You will be notified of results within one week. A passing grade is 70%. If you prefer instant results, take the on-line exam and receive an instant grade and certificate for passing. Just click on the **Student Login** button on the www.cpaselfstudy.com website.

I prefer to receive my grade and certificate by – please select one:
Email Mail Fax

Course ID – Name

Please transfer your answers to this sheet and fax them so that you do not have to fax all the pages.

Please make sure that your answers are clearly circled.

1	A	B	C	D
2	A	B	C	D
3	A	B	C	D
4	A	B	C	D
5	A	B	C	D
6	A	B	C	D
7	A	B	C	D
8	A	B	C	D
9	A	B	C	D
10	A	B	C	D

Click or access this link to go to our course evaluation page.

<http://cpaselfstudy.com//evaluation.htm>

Creating An Effective Accounts Payable Policy & Procedures Manual

CPE Exam

Instructions: Please select the single best answer and transfer it to the preceding score sheet.

Chapter 1: The Role an Accounts Payable Policy and Procedures Manual Plays

1) Why shouldn't you use another organization's accounts payable policy and procedures manual?

- A. It's cheating you should create your own
- B. It won't represent your actual procedures
- C. It won't teach your employees how to write a manual
- D. It is illegal

2) An accounts payable policy and procedures manual can be used for all of the following except:

- A. Training
- B. Hiring
- C. Reference
- D. Instructing

Chapter 2: Creating the Manual

3) What is the best way to create an accounts payable policy and procedures manual if you don't have one?

- A. Start with an outline of topics to be covered
- B. Hire a temp to create one for you
- C. Copy someone else's
- D. Purchase one

4) If your manual is several years out-of-date, which of the following is the best way to get it updated? (Select the best response).

- A. Review it and mark of sections no longer applicable
- B. Review it and mark of sections needing updating
- C. Review it and add needed topics not currently covered
- D. All of the above

Chapter 3: Using the Manual

5) Which of the following is a recommended approach for presenting material for easy reference in the accounts payable policy and procedures manual?

- A. Long explanatory descriptions
- B. Bulleted lists
- C. Both of the above
- D. Neither of the above

6) How can the policy and procedures manual help address the Rush Check problem?

- A. By including the cut-off schedule for check requests
- B. By explaining why rush checks are not a good idea
- C. Both of the above
- D. Neither of the above

Chapter 4: The Segregation of Duties Issue

7) An organization can avoid a potential segregation of duties issue if it:

Creating An Effective Accounts Payable Policy & Procedures Manual

- A. Routinely cuts off computer access when an employee leaves the company
- B. Routinely cuts of computer access when an employee changes positions
- C. Both of the above
- D. Neither of the above

- 8) If segregation of duties issues are ignored, which of the following is most likely to occur:
- A. Fraud becomes easier to perpetrate
 - B. The number of Rush checks will increase
 - C. The number of duplicate payments will increase
 - D. Check float will decrease

Chapter 5: Reviewing and Updating Your Policy and Procedures

9) Before making a process change to the manual, it should be discussed with which of the following? (Select the best response).

- A. The accounts payable staff
- B. All managers in the accounts payable department
- C. All other affected departments
- D. All of the above

10) Which of the following is not a best practice recommended to be included in your procedures?

- A. Accepting invoices by e-mail and fax
- B. Implementing a petty cash box
- C. Returning invoices without a purchase order number or name of requisitioner
- D. Developing strong coding standards