Accounting Best Practices

Part 2 of 3: Procurement to Payment

Surveys Results & Recommended Practices

June 2014
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Executive Summary

The Procurement to Payment Survey was conducted online in early 2014 and received 60 responses. Key findings and takeaways are summarized below.

Nearly half (48%) of organizations do not have a formal (documented) contract management process.  

**So what?** Having an established and documented contract management process helps streamline the protocol for contract bidding, documentation, review and approval, and payment. It also ensures the appropriate level of services is contracted. Ideally, the contract management process should be automated and have contract approval limits.

Slightly more than one-third (37%) of organizations use an online workflow/approval process for vendor invoices, and nearly two-thirds (64%) of these say the process is integrated with their accounting software.

**So what?** An online, structured workflow/approval process improves processing efficiency and reduces the possibility of duplicate or inappropriate disbursements.

About six out of 10 (59%) organizations allow employees who process vendor invoices to make changes or additions to the vendor master file, but less than half (47%) have someone outside the accounts payable function review additions to the vendor master file.

**So what?** If segregation of duties is not possible, ensuring the vendor master file is reviewed periodically by someone outside the accounts payable function can minimize an organization’s exposure to the risk of fraudulent activity (e.g., modification of existing vendors, addition of fictitious vendors). Also, vendors should be allowed to enter account information directly through an online, self-service portal, thereby reducing manual data entry by organizational staff.

Automated Clearing House (ACH) is rarely used for vendor invoice disbursements and expense reimbursements.

**So what?** Electronic payment methods like ACH are paperless and therefore faster and cheaper for both customers and banks. Electronic payments also reduce the likelihood of “check washing” fraud, which is the process of erasing details from checks to allow them to be rewritten.

Despite the prevalent use of checks, only about six out of 10 (59%) organizations use a positive pay fraud prevention process.

**So what?** Positive pay, which involves banks comparing a list of checks presented for payment against a list of authorized checks, protects organizations from fraud by significantly reducing counterfeit and fraudulent checks. Positive pay is offered by virtually every US commercial bank.
Most (90%) organizations task a person outside daily management with reviewing the CEO’s expense reports. **So what?** Fraud can occur at any level of an organization, so it is important to have someone without day-to-day management responsibilities review the CEO’s expense reports on a regular basis (at least quarterly). Audit committee members, officers, or other board members are good potential candidates for this task.

Only two out of 10 (20%) organizations give 50% or more of their staff access to corporate credit cards. **So what?** Inappropriate use of credit cards continues to be a prevalent defalcation issue at nonprofit organizations. By limiting who has access to corporate credits cards and ensuring that monthly limits and other usage controls are established and enforced, nonprofits can significantly reduce the risk of improper access to the organization’s assets. Nonprofits should also consider using purchase (pre-paid) cards for non-travel expenses and should require backup documentation for expenses above a threshold.

Most (96%) organizations use Excel or a fixed asset software to track fixed assets and calculate depreciation, but fewer than 2 out of 10 (16%) say this system is fully integrated with their AP module. **So what?** Integrating the fixed asset tracking system with the AP module eases workflows for approvals, tracking, reporting, and tax filing. It also eases calculation of depreciation and reconciliation of property and equipment owned with what is recorded in the books.

Nonprofits currently implement a variety of practices related to the procurement to payment processes, with varying degrees of efficiency and control. While the results included in this report provide nonprofit leaders an idea of how their procurement to payment procedures compare to similar organizations, their focus should be on identification of improvement opportunities and adoption of the best practices described throughout this report. Please contact us if you are interested in further discussing the survey results or would like to learn more about conducting an internal finance assessment.
Introduction

To help nonprofits better understand how their current practices compare to similar organizations and where there are opportunities for improvement, Tate & Tryon is conducting a three-part series on accounting best practices that entails (1) collecting information on the accounting practices of nonprofits and (2) providing survey results with recommendations for improving financial process performance and efficiency. This report includes findings from the Accounting Best Practices: Procurement to Payment Survey, the second survey in the series. The third survey will be conducted in June and July 2014 and will cover budgeting and accounting processes.

The Procurement to Payment Survey examines contracts, vendor invoice approval, vendor invoice payment, expense reports, and tracking fixed assets. In addition to survey results, this report includes best practice descriptions and ideas that can help guide a strategic discussion about financial processes. For example, when examining their procurement to payment procedures, nonprofit leaders may want to consider the following:

01 Does the organization have an efficient method for procuring goods and services?
02 Are vendor invoices approved online and by sufficient (but not excessive) individuals?
03 Are controls on use of corporate credit cards clear and enforced?
04 Is the fixed asset tracking system fully integrated with the AP module?

These questions and the best practice guides throughout this report can help nonprofit leaders take the first step towards critically evaluating their approach to procurement to payment processes.
Background

The Accounting Best Practices: Procurement to Payment Survey was conducted online in March and April 2014. Sixty survey submissions were received, primarily from professional/trade organizations (75%) (Figure 1).

Figure 1. Please select the option that best describes your organization. (n=60)

Approximately one-third (34%) of responding organizations have annual revenue of $20M or more. Approximately two out of 10 (21%) responding organizations have annual revenue less than $5M (Figure 2).

Figure 2. Please select the option that best describes your organization’s annual revenue. (N=60)
Contracts

When asked whether their organization has a formal (documented) contract management process, slightly more than half (52%) said yes (Figure 3).

**Figure 3. Does your organization have a formal (documented) contract management process? (N=60)**

- **52%** Yes
- **48%** No

Respondents who indicated having a formal (documented) contract management process were asked to describe approvals and other aspects of the process (Figure 4). Nine out of 10 (90%) respondents say their contract management process has contract approval limits, and fewer than three out of 10 (26%) respondents say the process is automated. The CFO/Director of Finance’s approval is most likely to be required for all contracts (58%), followed by legal’s approval (42%) and the CEO’s approval (32%). Approximately half (55%) of respondents say their contract management process expedites the invoice approval/payment process.

**Figure 4. Please indicate the best response for each of the following questions regarding your organization’s formal contract management process. (N=31)**

- Does the process have contract approval limits? **90%**
- Is the CFO/ Director of Finance’s approval required for all contracts? **58%**
- Does it expedite the invoice approval/ payment process? **55%**
- Is Legal’s approval required for all contracts? **42%**
- Is the CEO’s approval required for all contracts? **32%**
- Is the process automated (paperless)? **26%**
Fewer than three out of 10 (27%) respondents have a purchase order process (Figure 5).

Figure 5. Does your organization have a purchase order process? (N=60)

- No 73%
- Yes 27%

Half (50%) of respondents have a purchase order process for expenses above a threshold, and nearly four out of 10 (38%) use a purchase order process for IT-related expenses (Figure 6). Slightly less than one-third (31%) of respondents use a purchase order process for capital expenses and contractual expenses, while 31% use a purchase order process for all expenses.

Figure 6. For what purpose(s) does your organization have a purchase order process? Select all that apply. (N=16)
**Vendor Invoice Approval**

Slightly more than one-third (37%) of respondents say their organization uses an online workflow/approval process for vendor invoice approvals (Figure 7). Of those, slightly less than two-thirds (64%) say their online workflow/approval process is integrated with their accounting software (Figure 8).

**Figure 7.** Does your organization use an online workflow/approval process? (N=59)

- Yes: 37%
- No: 63%

**Figure 8.** If yes, is your online workflow/approval process integrated with your accounting software? (N=22)

- Yes: 64%
- No: 36%
Respondents say their organization is most likely to require invoice approvals from the department head that procured the goods or services (85%) and the CFO/Director of Finance (59%) (Figure 9). Approximately one-third of respondents say their organization requires invoice approvals from the accounts payable clerk (32%), the controller (32%), and the CEO (31%). Only seven percent of responding organizations require legal’s approval.

Figure 9. Please indicate which of the following invoice approvals are required by your organization. Select all that apply. (N=59)

<table>
<thead>
<tr>
<th>Approval Requested</th>
<th>Percentage</th>
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<tr>
<td>Department head procuring goods/services</td>
<td>85%</td>
</tr>
<tr>
<td>CFO/Director of Finance</td>
<td>59%</td>
</tr>
<tr>
<td>Accounts payable clerk</td>
<td>32%</td>
</tr>
<tr>
<td>Controller</td>
<td>32%</td>
</tr>
<tr>
<td>CEO</td>
<td>31%</td>
</tr>
<tr>
<td>Legal</td>
<td>7%</td>
</tr>
</tbody>
</table>

Approximately six out of 10 (61%) respondents use a module from their general ledger to process accounts payable (Figure 10). Other solutions used include PN3, Bill.com, and AnyBill.

Figure 10. Which solution(s) does your organization use to process accounts payable? Select all that apply. (N=59)
Respondents were asked a number of questions related to vendor management (Table 1). None of the responding organizations allow vendors to manage their account information online through a self-service portal, and nearly eight out of 10 (78%) require W9s for all new vendors. Nearly six out of 10 (59%) allow employees who process vendor invoices or vendor payments to make changes and/or additions to the vendor master file, but fewer than half (47%) have a person outside of the accounts payable function review additions to the master file.

Table 1. Please select the best response for each of the following questions regarding your organization’s process for adding new vendors to the vendor master file. (N=59)

<table>
<thead>
<tr>
<th>Vendor Management</th>
<th>% Yes</th>
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<tbody>
<tr>
<td>Does your organization allow vendors to manage their account information online through a self-service portal?</td>
<td>0%</td>
</tr>
<tr>
<td>Does your organization require a W9 for all new vendors?</td>
<td>78%</td>
</tr>
<tr>
<td>Are employees who process vendor invoices or vendor payments permitted to make changes and/or additions to the vendor master file?</td>
<td>59%</td>
</tr>
<tr>
<td>Are additions to the vendor master file reviewed periodically by a person outside of the accounts payable function?</td>
<td>47%</td>
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**Best Practices for Vendor Invoice Approval**

- **Implement an online, structured workflow for vendor invoice approval that is integrated with your accounting software**
  
  An online workflow/approval process for vendor invoices significantly reduces the possibility of duplicate or inappropriate disbursements and minimizes delays by improving visibility for accounting officers. This practice is also helpful for executives that travel frequently as they can view these workflows via the web.

- **Implement processes to ensure the integrity and timeliness of vendor information and payments**
  
  - Request W9s from your vendors so that you can accurately report vendor payments.
  - Improve accuracy and timeliness of vendor information by allowing vendors to input and update their account online.
  - Ensure that the vendor master file is reviewed periodically by a person outside the accounts payable function to minimize the risk of fraudulent activity (e.g., modifying existing vendors, adding fictitious vendors).
Vendor Invoice Payment

Nearly three-fourths (72%) of respondents pay at least half of their disbursements by paper check (Figure 11). Approximately one out of 10 (9%) respondents pay at least 50% of disbursements by Automated Clearing House (ACH). Only small percentages of respondents pay primarily by credit card/purchase card, electronic funds transfer (EFT), or by using a third-party payable processor (such as Bill.com or Anybill).

For those respondents who use paper checks, nearly three-fourths (72%) of respondents only use pre-printed checks, whereas approximately one-fourth (26%) only use blank (MICR encoded) checks (Figure 12).

**Figure 11. Percent of respondents who pay at least 50% of disbursements by each of the following payment methods. (N=58)**

Nearly six out of 10 (59%) respondents report that their organization uses a positive pay fraud prevention process (Figure 13).

**Figure 12. When using paper checks, please indicate which of the following type(s) of checks are used by your organization. (N=58)**

**Figure 13. Does your organization use a positive pay fraud prevention process? (N=58)**
Expense Reports

Nearly four out of 10 (38%) respondents use an expense reporting software (Figure 14), and of those one-third (33%) use Concur (Figure 15). Other expense reporting software used by respondents includes PN3, Solomon Business Portal, and QuickBooks.

Figure 14. Do you use expense reporting software? (N=58)  
Figure 15. If yes, which expense reporting software do you use? (N=21)
Respondents were also asked to indicate the approximate percentage of total reimbursements made by ACH payment, rather than paper check (Figure 16). Approximately half (51%) of respondents use ACH for less than 5% of reimbursements, while approximately one out of 10 (11%) use ACH for at least 75% of reimbursements.

Figure 16. Please indicate the approximate percentage of total reimbursements made by ACH payment (versus paper check). (N=57)

Regarding the CEO’s expense reports, respondents were asked whether a person outside of the organization’s day-to-day management reviews the CEO’s expense reports. If so, the survey asked who reviews the CEO’s expense reports and how often (Figure 17).

Figure 17. CEO expense report review practices.

9 out of 10 say a person outside daily management reviews the CEO’s expense reports (N=57)

The CEO’s expense reports are most likely to be reviewed quarterly (41%) or monthly (35%) (N=51)

Of these, officers (president, treasurer, secretary, etc.) are most likely to review the CEO’s expense reports (N=51)
Nearly two-thirds (65%) of respondents reimburse board members for travel-related expenses (Figure 18), and nearly nine out of 10 (88%) of respondents say their organization issues corporate credit cards to employees (Figure 19).

**Figure 18. Are board members reimbursed for travel-related expenses? (N=57)**

- Yes 65%
- No 35%

**Figure 19. Does your organization issue corporate credit cards to employees? (N=57)**

- Yes 88%
- No 12%

For those responding organizations that do issue corporate credit cards to employees, two out of 10 (20%) provide credit cards to at least half of their staff (Figure 20). Two out of 10 (20%) responding organizations provide credit cards to less than 10% of their staff.

**Figure 20. Approximately what percentage of employees have corporate credit cards? (N=50)**

- Less than 5%: 8%
- 5% to 9%: 12%
- 10% to 24%: 28%
- 25% to 49%: 32%
- 50% to 74%: 14%
- 75% or More: 6%
Additionally, the corporate credit card spending limit is likely to be higher for CEOs and
senior managers than for staff (Figure 21).

**Figure 21. What is the approximate monthly limit for corporate credit card spending for
each of the following staff levels? (N=50)**

CEO
- 3% <$1K
- 3% $1K to $2.49K
- 6% $2.5K to $4.9K
- 21% $5K to $9.9K
- 67% $10K or More

Senior Management
- 15% <$1K
- 24% $1K to $2.49K
- 23% $2.5K to $4.9K
- 38% $5K to $9.9K

Staff
- 11% <$1K
- 25% $1K to $2.49K
- 39% $2.5K to $4.9K
- 14% $5K to $9.9K
- 11% $10K or More

**Best Practices for Expense Reports**

**Task non-staff with regularly reviewing the CEO’s expense reports**
- A subordinate staff member or direct report of the CEO should never be the final approval for the CEO’s expense reports. Tasking someone outside day-to-day management (such as an audit committee or board member) to review the CEO’s expense reports at least quarterly is a good control and improves transparency at the board level.

**Limit use of corporate credit cards and require backup documentation**
- Our experience has been that the more credit cards are issued to staff, the greater the chance of fraud at an organization. Therefore, provide corporate credit cards only to employees who need them and ensure monthly limits and other usage controls are established and enforced. Consider using purchase (pre-paid) cards for non-travel expenses.
- Require backup documentation for expenses above a threshold.
Tracking Fixed Assets

Nearly all (96%) respondents use Excel or a fixed asset software to track fixed assets and calculate depreciation (Figure 22). However, fewer than 2 out of 10 (16%) say their fixed asset system is fully integrated with their AP module.

Figure 22. Procedures for tracking fixed assets

While nearly all use Excel or a fixed asset software to track fixed assets and calculate depreciation...

... fewer than 2 out of 10 say their fixed asset system is fully integrated with their AP module

Best Practices for Tracking Fixed Assets

- **Adopt a system for tracking fixed assets and integrating with the AP module**
  - Integrating your fixed asset tracking system with your AP module eases workflow for approvals, tracking, reporting and tax filing. It also simplifies calculation of depreciation and reconciliation of property and equipment owned with what is recorded in the books.
Conclusion

Nonprofits currently implement a variety of practices related to the procurement to payment processes, with varying degrees of efficiency and control. The Accounting Best Practices: Procurement to Payment Survey provided us with the following insights:

Contracts

The roughly 50% of organizations without a formal, documented contract management process risk lapses in how often contracts are evaluated and/or applying an inconsistent evaluation approach. Even those with formal contract management processes may still engage in manual or paper-based tasks that can be replaced or accelerated through automation or other use of technology. Additionally, those organizations requiring multiple approvals for all contracts should consider setting approval limits or only requiring certain approvals for particular kinds of contracts. This will help expedite the invoice approval and payment process.

Less than one-third of organizations have a purchase order process, which can be helpful for streamlining orders for one-time, non-scheduled procurement of goods and services. A purchase order process also helps avoid duplicate purchases and assists in monitoring projected results. However, formal purchase order procedures may not be necessary or helpful for minor expenses and should be reserved for expenses exceeding a specified threshold.

Vendors

Most organizations do not use an online workflow/approval process for vendor invoice approvals, but two-thirds of those that do integrate the process with their accounting software. This practice significantly reduces the possibility of duplicate or inappropriate disbursements while improving processing efficiency.

Nonprofits can improve the accuracy and timeliness of vendor data by allowing vendors to input their information directly through a self-service portal. All nonprofits should require W9s from vendors to help with accurate reporting of vendor payments. Finally, to improve data accuracy as well as prevent fraud, nonprofits should task someone outside the accounts payable function with regularly reviewing changes and/or additions to the vendor master file.
**Payments**

The majority of disbursements and reimbursements are made by paper check, versus an electronic alternative such as ACH. Because checks are so often the primary payment method, nonprofits are highly encouraged to implement positive pay to detect counterfeit and fraudulent checks. Furthermore, nonprofits should consider switching to electronic payment methods like ACH, which are faster and less expensive for both the customer and the bank.

**Expense Reports**

Most nonprofits are not using expense reporting software, a tool that aids with monitoring and analysis. Nearly all respondents ensure the CEO’s expense reports are reviewed by a person outside daily management, most often tasking the officers of the board on a quarterly or monthly basis. The majority of nonprofits issue corporate credit cards to employees, though typically only to a select group and with monthly spending limits. Nonprofits can improve the expense reporting process and minimize risk for fraud by restricting who has access to credit cards and how they are used. For example, organizations may want to use purchase cards for all non-travel expenses. Nonprofits should also require backup documentation for expenses above a certain threshold.

In summary, nonprofits are encouraged to examine their procurement to payment procedures from three perspectives:

- **Automation:** Have manual, redundant, and/or unnecessary steps been eliminated?
- **Balance:** Are there sufficient checks and approvals to minimize risk but to avoid over-complication or “over-layering” of processes?
- **Fraud prevention:** Have best practices that minimize an organization’s risk for fraud been adopted, such as:
  - Tasking someone outside the AP function to review changes to the vendor master file?
  - Implementing positive pay?
  - Tasking someone outside the organization’s day-to-day management to review the CEO’s expense reports?
  - Limiting access to and use of corporate credit cards?

By asking these questions, mapping existing processes, and identifying opportunities for improvement, nonprofit leaders will help ensure that their procurement to payment processes are using resources efficiently for the most effective results. We also encourage nonprofits to participate in the third survey of our Accounting Best Practices Series, which examines accounting and budgeting processes.
What’s Next?

Use our resources and services to guide strategic discussions and identify opportunities for improving financial performance and efficiency. Also, be sure to participate in our Budgeting and Accounting Survey and stay informed about future survey opportunities!

Resources

Accounting Best Practices: Billing & Collections Whitepaper
Data Management Checklist
Who (and What) is the Chief Data Officer?
IT Staffing and Spending Benchmarks
Membership Metrics: A Review of Current and Best Practices

About Tate & Tryon

Tate & Tryon is a public accounting and consulting firm that specializes in accounting, financial management, and research services for nonprofit entities. We offer unparalleled experience and financial solutions through a wide range of accounting, audit & attest, tax preparation, and advisory services. We also provide financial systems consulting through T3 Information Systems, which is a wholly-owned subsidiary of Tate & Tryon. T3 specializes in the Microsoft Dynamics GP (Great Plains) accounting system, as well as business intelligence and planning software that meet the unique needs of the nonprofit community.

“...professionalism of every staff member we have been in contact with is exceptional. I have worked with many CPA firms during my long accounting career in the Washington DC Metro Area, and without a doubt, Tate & Tryon is number 1."

-Lynn Craig, VP of Finance & Administration
The American Waterways Operators

Services

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AMS/CRM/Donor Database Software
Data Capture Process Design
Data Outsourcing Services
Benchmarking and Diagnostic Tools
Risk Management Assessment
CFO and Controllership Services

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