Procure-to-Pay Process

The Procure-to-Pay process is how an organization purchases the raw materials and services needed to do business. P2P process itself can be broken into three primary phases

- **The Purchase Order Process**, during which:
  - Purchase requisitions are created and approved.
  - Vendors are evaluated and selected.
  - Purchase orders are issued for the required goods and services.
- **The Receiving Process**, during which:
  - Goods and services are received or executed.
  - For goods, receiving documents are reviewed and logged.
- **The Invoice Approval Process**, during which:
  - Invoices are received.
  - Invoices are reconciled and cross-checked with the original PO and receiving documents (three-way matching).
  - Errors are recorded and corrected.
  - Approved invoices are paid.

Process Details

1. **Requisition Order Placed**
   Requisition orders are a formal request for goods or services. In cases where every item can be defined in advance, most requisitions are defined and built into the procurement plan. Even the most carefully defined plans, however, can need additional materials due to spoilage, unforeseen events, scope creep from clients, or new ideas to make improvements on the original plan. Well-crafted procurement plan budgets have a cushion built in for just such circumstances, and requisition orders can be submitted later in the process if necessary.
2. **Vendor Selection**
   For new orders, the vendor selection process may need to be brought into play. Working from a short list of vendors, the procurement department sends a request for proposal (RFP) outlining the requirements.
   Suppliers return a bid on the job, detailing turnaround time, price, and pertinent material specifications.
   During the process of choosing suppliers, negotiations take place. In addition to quality, cost and delivery schedules, the procurement department will explore potential advantages such as:Year-over-year price reduction, Quantity discounts, Future improvement in quality, Freight and insurance costs

3. **Compliance requirements must also be considered**. The industry may have federal standards to meet, and the company may have a social conscious agenda endemic to company culture.

   Once negotiations with all the short-listed vendors are completed and the most advantageous deal is identified, a supplier is chosen according to the selection criteria outlined in the procurement plan and a purchase order is issued.

4. **Purchase Order (PO) Issued**

   Once the requisition order is approved, a detailed order form with amounts and delivery requirements is submitted. The PO is sent to the appropriate vendor for fulfillment.

5. **Receiving Documents Logged**

   The vendor delivers the goods or services and the relevant receiving document is entered, with line items verified to ensure that everything ordered is delivered.

6. **Invoice Received**

   The vendor submits an invoice, which is entered into the system. Automated systems often support electronic invoicing (eInvoicing) through the use of vendor portals.

7. I**nvoice Reconciliation**

   The invoice is reconciled against the PO and relevant documents from the receiving process. In automated systems, the three-way matching process A three-way match is the process of matching the invoice, purchase order, and receiving report to validate the details of a purchase before making a payment. The purpose of this process is to reduce the risk of fraud and financial loss by preventing the reimbursement of unauthorized purchases. Line items that do not match are flagged and reported for investigation.

8. **Accounts Payable**

   Invoices approved for payment are routed to AP. Payments are made, and the accounting system is updated.