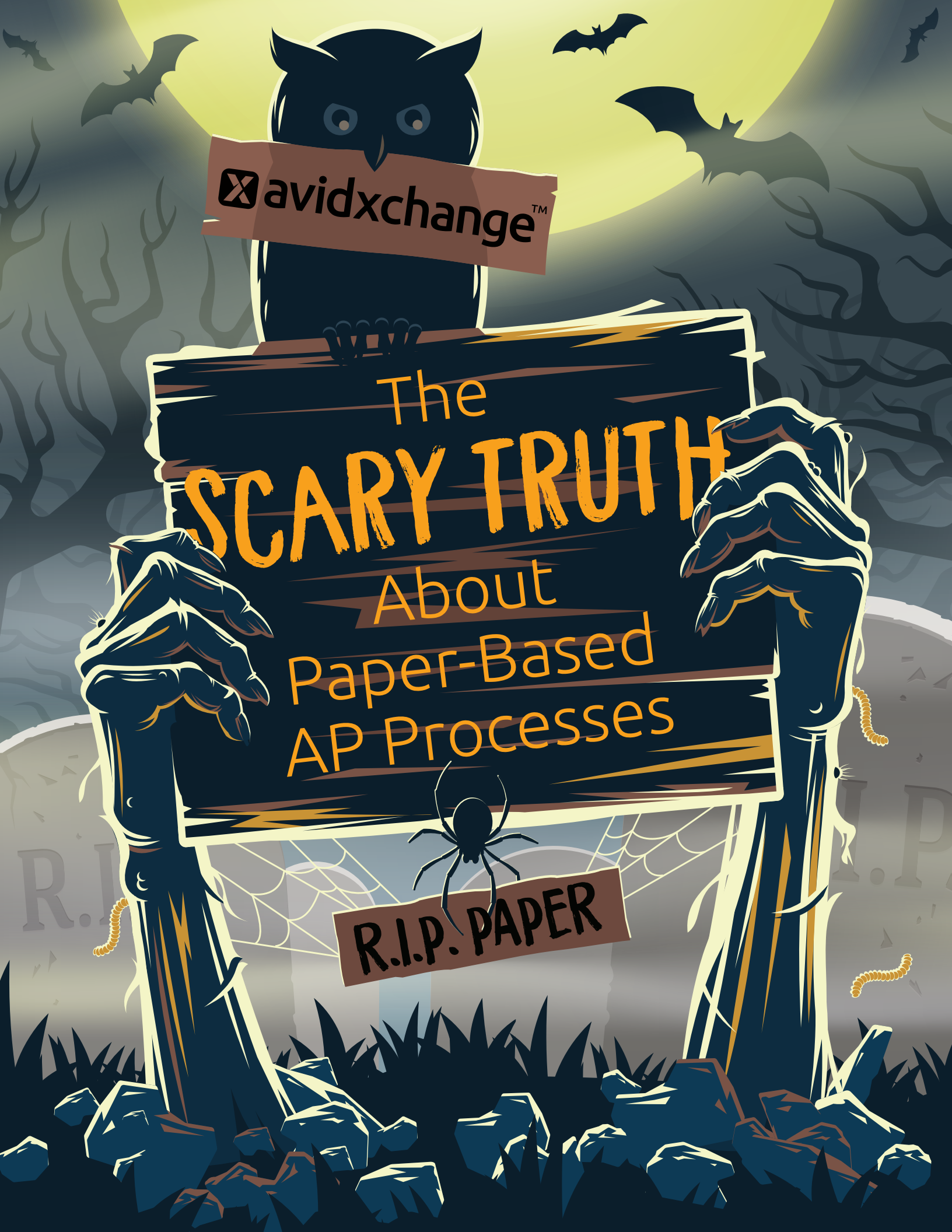
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The
SCARY TRUTH
About
Paper-Based
AP Processes
R.I.P. PAPER

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# AN INTRODUCTION TO AUTOMATION

Over the last decade, it has become apparent that automating accounts payable processes can significantly improve an organization's overall financial operations. Automation adds substantial value to accounts payable, including real-time visibility into performance and financial status, increased accuracy, and better compliance with tax laws and industry regulations.

If your company is still receiving paper invoices or cutting paper checks, you're not capitalizing on today's best practices. You're also missing out on the unlimited potential for savings after relieving your AP team of time-consuming tasks such as opening the mail, data entry, and filing mountains of paper.

AP automation, including invoice processing and payment automation is the most critical first step in bringing technology into the accounts payable department. Applying automation to your payment processes means eliminating paper invoices and checks from your organization entirely, while reducing your processing costs by more than half along the way. In this eBook, you'll learn about the history of paper checks, why companies still use them, and how paper can put your company at risk for B2B fraud.

ENTER IF YOU DARE!

# THE HAUNTED HISTORY OF PAPER CHECKS

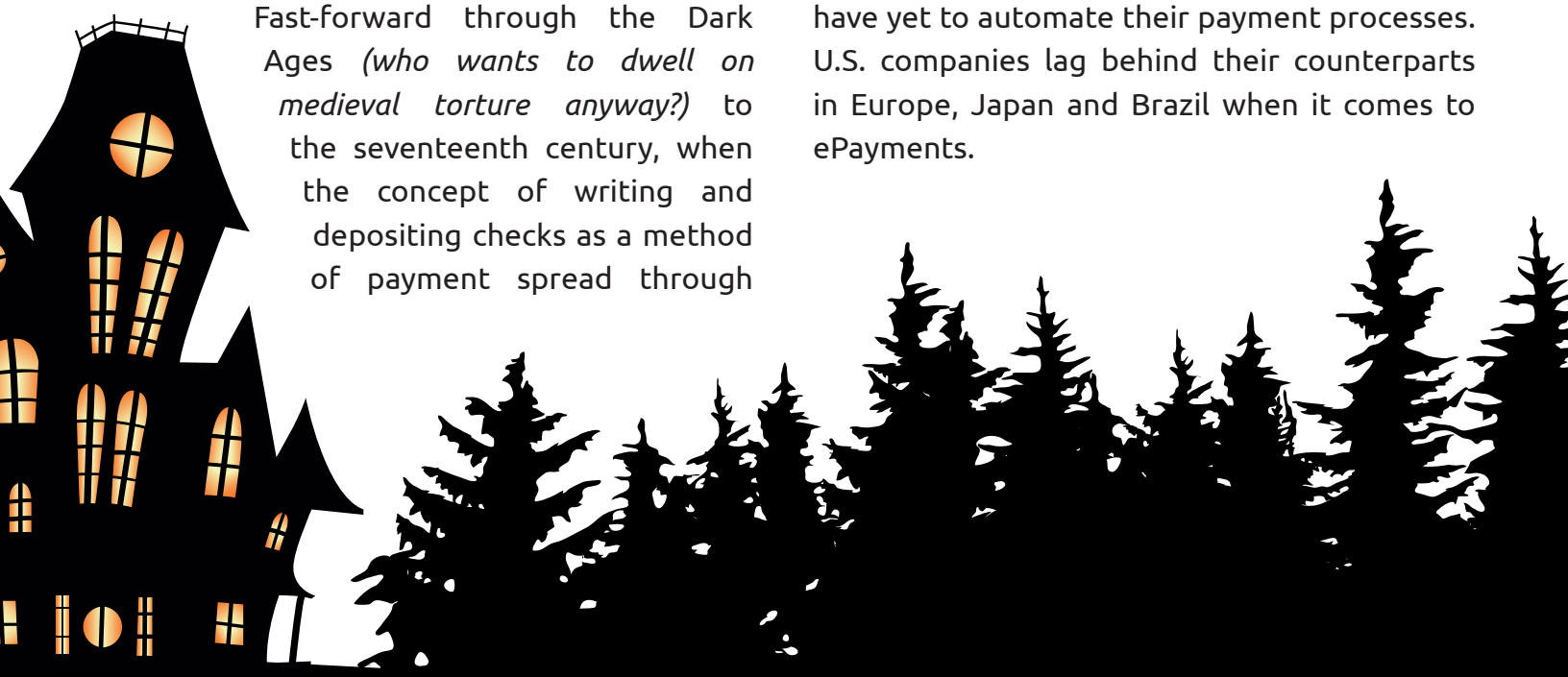
No one really knows when checks first appeared in the ancient banking system – *the concept is that old.* Some historians believe ancient Romans used an early form of check, known as praescriptiones, going as far back as the first century BCE.

In the early eleventh century, an Iranian traveler named Nasir-iKhosrau visited the city of Basra in present-day Iraq. There, he recorded one of the first descriptions of a form of payment known as the *sakk*, a merchant's written instruction, ordering his bank to make a payment from his account. During the Crusades, Europeans met the Muslim world and began to adopt, with some modifications, the banking and monetary systems they encountered in the eastern Mediterranean.

Fast-forward through the Dark Ages *(who wants to dwell on medieval torture anyway?)* to the seventeenth century, when the concept of writing and depositing checks as a method of payment spread through England. The acceptance of checks met resistance, because people still had reservations about trusting their hard-earned money to little scraps of paper. See? Suspicion of bankers is a time-honored tradition!

Per the business records of an unidentified Bostonian, checks first appeared in the United States in 1681, when merchants in Boston mortgaged their land to a "fund," against which they could write checks. 346 years later, in a world where you can make a payment by swiping your credit card through a Square Reader attached to an iPhone, companies are still writing and mailing checks.

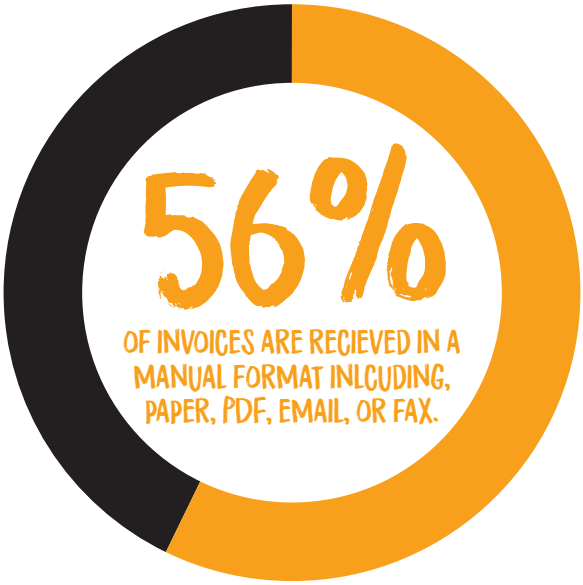
According to the Wall Street Journal, there are over 300,000 small and medium-sized businesses (SMBs) in the United States that have yet to automate their payment processes. U.S. companies lag behind their counterparts in Europe, Japan and Brazil when it comes to ePayments.



The 2016 Federal Reserve Payments Study shows U.S. noncash payments, including debit card, credit card, ACH, and check payments, are estimated to have totaled over 144 billion with a value of almost $178 trillion in 2015, up almost 21 billion payments since 2012. The number of check payments fell to 17.3 billion, down 2.5 billion since 2012. Check payments have fallen at an annual rate of 4.4 percent from 2012 to 2015.

Check payments have been a prominent B2B payment method for decades, and it is still the preferred method for many companies, followed by ACH payments. However, paper checks lead to a variety of challenges for organizations, including high processing costs, late payments, and missed discounts, which can cost companies millions each year.

Research from PayStream Advisors shows that companies relying heavily on checks or ACH payment methods typically experience more processing challenges than those that employ a diverse mix, such as electronic payables platforms and commercial card programs.

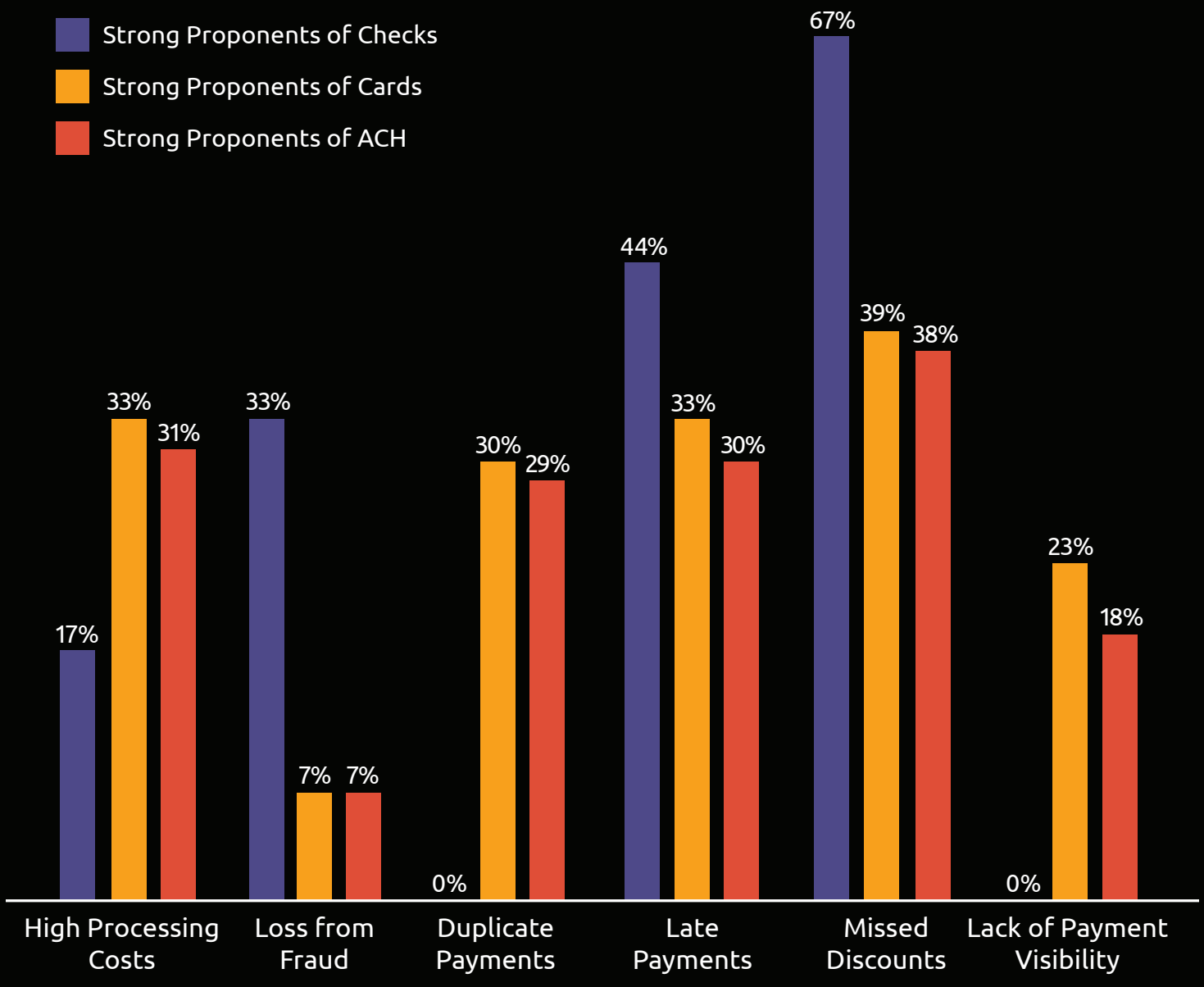



Likewise, Ardent Partners finds that AP departments continue to face time, cost, and effectiveness challenges thanks to a reliance on paper. Research shows that average enterprise receives 56% of its invoices in a manual format including paper, PDF, email, or fax. Receiving invoices via PDF or email is no better than receiving paper, unless a data capture solution is in place to automatically identify, extract, and convert the data into a digital format. Otherwise, the information must be manually entered. The remainder (44%) are received in an electronic format, which includes eInvoices, EDI/XML, or web-portal.

"THE NUMBER OF CHECK PAYMENTS FELL TO 17.3 BILLION, DOWN 2.5 BILLION SINCE 2012."

Comprehensive automation solutions, like AvidXchange's, streamline the tedious tasks associated with payment management. These tools enable organizations to reduce their reliance on manual methods that require heavy involvement and oversight, eliminate paper, and to shift much of the processing burden to the provider.

# CURRENT PAYMENT CHALLENGES




**Strong proponents of checks experience the most missed discounts and late payments*

# THE MONSTER IN YOUR FILING CABINET

Like paper checks, the origin of the vertical filing cabinet is an unsolved mystery. I know, I know, it's a terrifying thought, but apparently, the filing cabinet just showed up one day and we all started using it without questioning its existence. That's a little weird, right?

According to the "Vertical Filing Cabinet" section of the Early Office Museum website, there's some controversy as to when the vertical filing cabinet first appeared. Some sources claim that a gold medal was presented at the World's Fair of 1893 for a vertical file. However, The Early Office Museum found no evidence to substantiate those claims.

Research by Author, Ester Ellen-Poe, not to be confused with Edgar Allen Poe, suggests that the commercial introduction of vertical filing may have occurred in 1900 when a company named the Library Bureau published a catalog that included a vertical filing cabinet.

115 years later, the filing cabinet isn't the modern marvel of efficiency and convenience it once was. With the advent of computers and electronic filing, the filing cabinet has become a cobwebbed crypt for lost invoices and forgotten files. Inside, lurking deep within the bowels of the cabinet, is a monster lying in wait: the pale and sharp-edged creature we call paper.

We've become so accustomed to working with the beast that we don't see how destructive it really is. It feeds off time and money, wreaking havoc on workflows. It costs your company the moment it enters your workplace. You slice open the envelope and let the invoice out, and it immediately sets out on a path to chew up as many resources as possible.

The monster starts by feeding off your employees' time, requiring some poor soul to receive the invoice, open it, compare it against a PO and then route it on so that it can be coded and approved. Then, you still have to check the budget, enter it into your accounting system, and add it to the general ledger before you can even think about cutting a check and filing the thing away. And, this is to say nothing of the paper envelopes and postage required.

Just how much the monster consumes varies by company, depending on how many invoices and payments the business processes and how many AP professionals it employs. On average, companies are paying more than $22 to process and pay a single invoice.

Don't think for a second that you've conquered the monster simply because you've worked all the way through to the payment process. Days, weeks, or months down the road, someone is going to have a question about an invoice that will necessitate you walking over to your filing cabinet with cold beads of sweat forming on your forehead. You're not scared of what you will find –you're now scared of what you won't find.

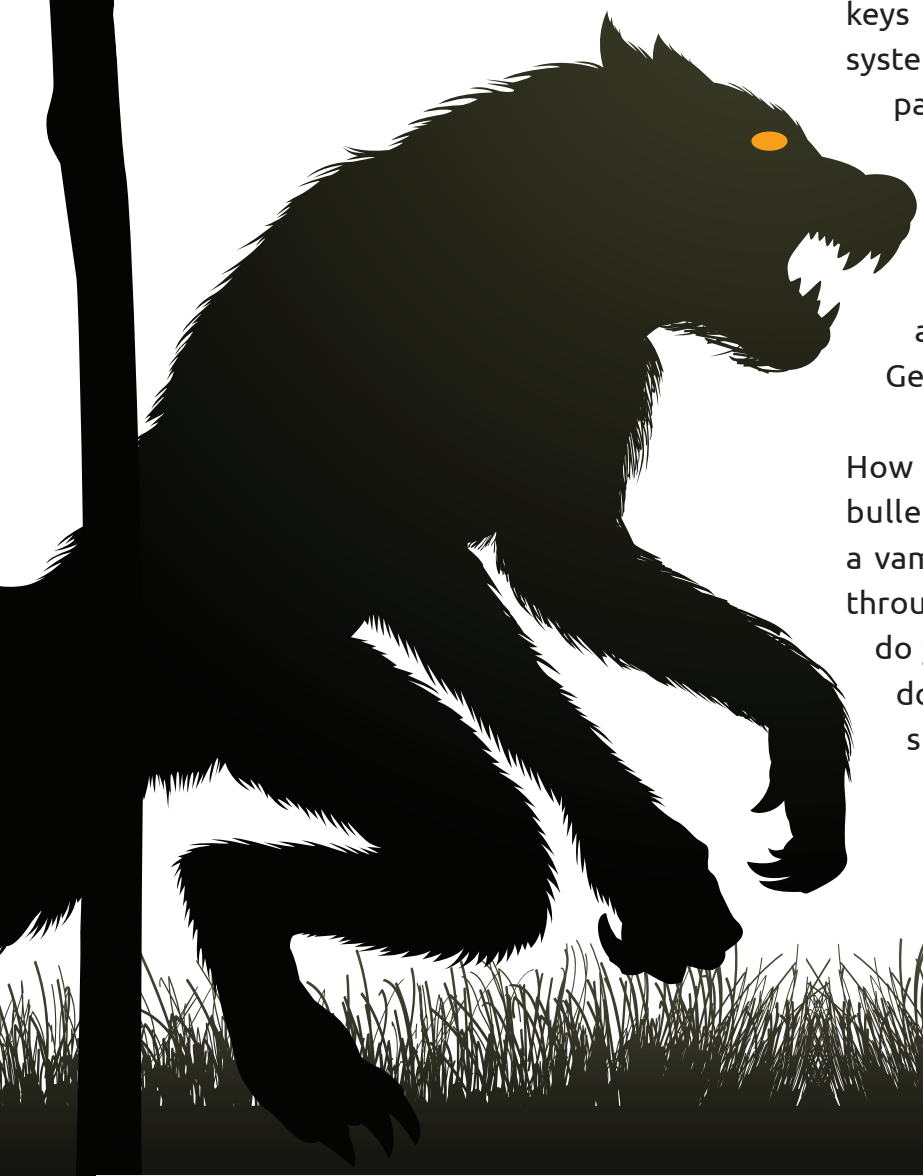
AP automation tames the beast and puts it to work for you. Invoices are processed electronically and stored in a secure, cloud-based environment so you can enjoy 24/7 access anytime, anywhere. With real-time visibility, improved accuracy, and fraud detection you will have greater control over every invoice and payment your company makes.

> "ON AVERAGE, COMPANIES ARE PAYING MORE THAN $22 TO PROCESS AND PAY A SINGLE INVOICE.

# SLAYING THE BEAST OF INEFFICIENCY

Why are companies clinging to the past and its outdated processes? The same reason consumers are often slow to adapt new technologies: we're afraid of change. There's always a certain level of angst around transitioning to a new process, simply because it's new.

As unnerving and unsettling as change can be, there's something even scarier about staying the same, especially when it comes to business processes. In today's fast-paced digital world, is there anything more terrifying than being inefficient? Does the fear of change outweigh the prospect of being obsolete?



In a paper-based accounts payable workflow, an AP specialist manually keys invoice data into an accounting system before physically storing the paper documents in a creaky old filing cabinet. To approve an invoice, the specialist must conduct a three-way match, comparing the PO, the receipt, and the invoice to identify any inaccuracies or mismatched data. Getting scared yet?

How do you stop a werewolf? Silver bullets, of course. How does one deal with a vampire? Exposure to sunlight or a stake through the heart will do the trick. But, how do you slay the beast of inefficiency? You don't need an ancient amulet or a sacred spell, only the power of AP automation!

In an automated system, the AP department's eInvoicing software receives an electronic version of the vendor's invoice, either with or without a separate electronic purchase order. The system pulls information from the invoice and uses it to auto-populate electronic documents, checking it against multiple sources.

Automated routing and approval workflow capabilities eliminate the long paper trail of manual-based invoice approval processes, shortening approval periods and getting invoices paid much faster than leveraging simple manual tactics. The system flags exceptions and routes them to an AP associate, who determines whether to call the supplier or research the issue further.

As for reporting and analysis, AP professionals can login to the system to study reports that are available to them depending on their login credentials. AP specialists can access reports on transactions handled, while managers can see the performance of the team, and the C-suite can view daily, weekly, or periodic metrics such as DSO and cash flow.

**AUTOMATED ROUTING AND APPROVAL WORKFLOW CAPABILITIES ELIMINATE THE LONG PAPER TRAIL OF MANUAL-BASED INVOICE APPROVAL PROCESSES**

# Paper Problems: B2B Fraud & Invoice Scams

In a paper-based environment, your company's documents are constantly at risk. Physical copies of sensitive information can be easily misplaced, altered, or destroyed. If these documents are lost or tampered with, then you no longer have access to the data necessary to effectively operate your business.

Research has shown that paper documents and checks are leading sources for fraud, because data is not protected. In fact, 48 percent of payment fraud can be tracked back to paper checks. Per research from the Association for Financial Professionals (AFP), there's been a dramatic increase in payments fraud hitting businesses this year compared to 2015.

According to the 2017 AFP Payments Fraud Survey, 75 percent of the companies hit by payments fraud fell victim to check fraud — up from 71 percent in 2015. Nearly the same amount (74 percent) said they were hit by the business email compromise scam (BEC) last year — a 10 percent increase compared to the year before. The BEC is a sophisticated scam targeting businesses working with foreign suppliers and/or businesses that regularly perform wire transfer payments.

The scam is carried out when a subject compromises legitimate business email accounts through social engineering or computer intrusion techniques to conduct unauthorized transfers of funds. Most victims report using wire transfers as a common method of transferring funds for business purposes; however, some victims report using checks as a common method of payment. The fraudsters

ACCORDING TO THE FBI, THE SCAM HAS BEEN REPORTED IN ALL 50 STATES AND IN 131 COUNTRIES AND CAUSED ABOUT $1.6 BILLION IN DAMAGES FOR U.S. BUSINESSES BETWEEN OCTOBER 2013 AND DECEMBER 2016.

will use the method most commonly associated with their victim's normal business practices.

The scam has evolved to include the compromising of legitimate business email accounts and requesting Personally Identifiable Information (PII) or Wage and Tax Statement (W-2) forms for employees, and may not always be associated with a request for transfer of funds.

The BEC scam continues to grow, evolve, and target small, medium, and large businesses. Between January 2015 and December 2016, there was a 2,370% increase in identified exposed losses. According to the FBI, the scam has been reported in all 50 states and in 131 countries and caused about $1.6 billion in damages for U.S. businesses between October 2013 and December 2016.

With 75 percent of companies experiencing check fraud, it's important that businesses take preventative measures by educating their employees and implementing the solutions they need to protect their assets and data from cyber fraud.

# BASED ON A TRUE STORY: THE HORRORS OF B2B FRAUD

## A MANCHESTER MALADY

According to the New Hampshire Union Leader, 60-year-old John Plaza is facing two felony charges of theft by deception for the alleged embezzlement scheme at Riverside Self Storage in Nashua. Over the past six years, Plaza stole nearly $106,000 from his employer, which is owned by F.W. Webb Co.

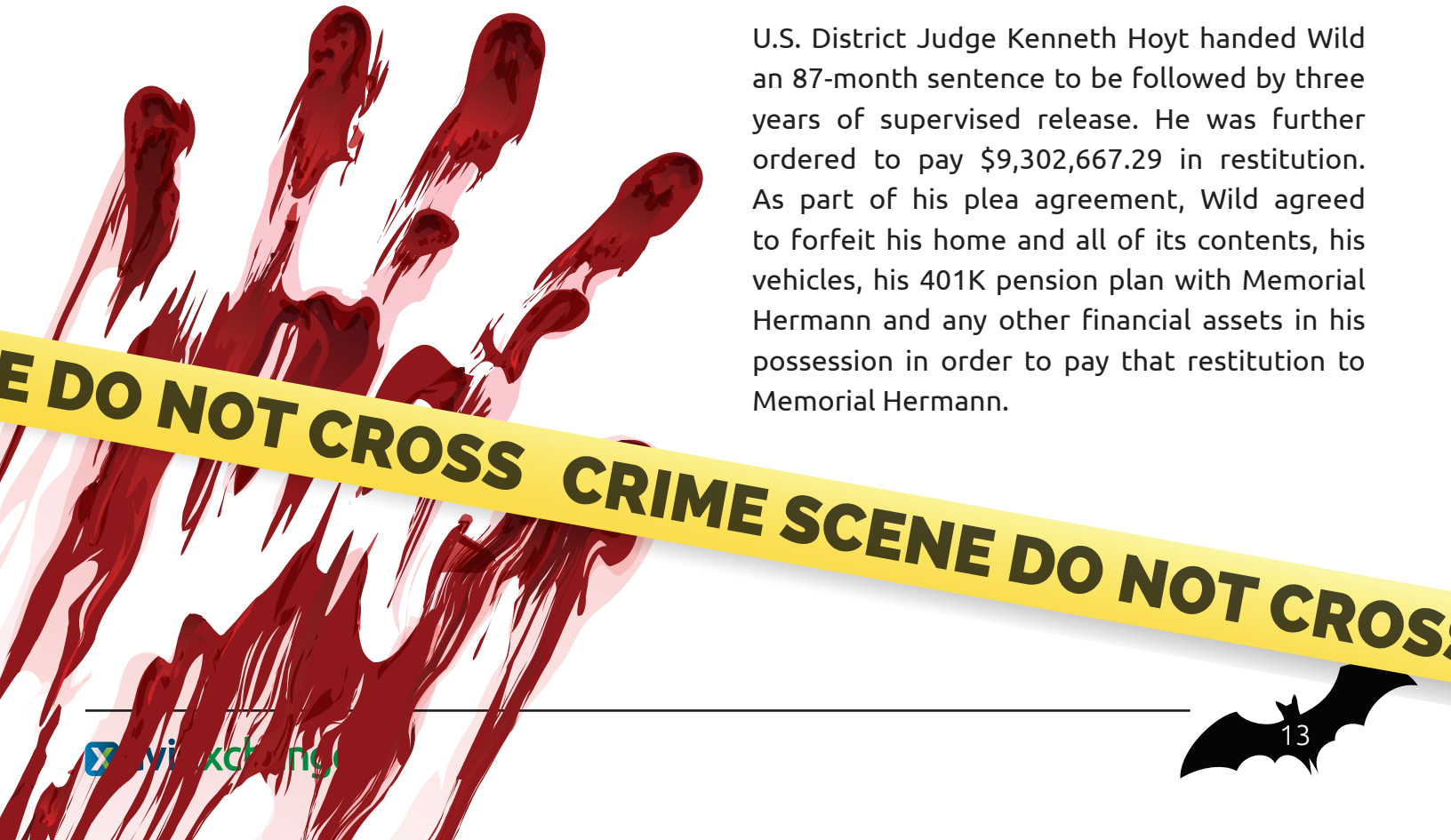
Plaza would rent out storage units for cash, and forego documenting the transaction in the books. Plaza would then take the cash payments and manually advance the date in the computer system so that it looked like the customer didn't owe a balance. After manipulating the accounting software, Plaza would write off the amount owed and pocket the cash. Plaza worked for F.W. Webb for 20 years and helped to oversee Riverside Self Storage since 2008.

## HOUSTON, WE HAVE A PROBLEM

According to an article in Printing Impressions, Kenneth Wild II defrauded Houston's Memorial Hermann Health Systems of nearly $10 million. The 49-year-old printing and mail services manager submitted more than 200 invoices from Digital Designs, a fake company that never provided any materials to the hospital system. He would then cut checks to this ghost account, which were sent to a post office box he controlled.

Wild used the money to live the jet-set life, taking vacations to England, Germany, Iceland, Netherlands, and China. He also lived it up in the Houston area, eating at posh restaurants and lavishly renovating his Katy home. An anonymous tip exposed Wild's activities and resulted in an arrest.

U.S. District Judge Kenneth Hoyt handed Wild an 87-month sentence to be followed by three years of supervised release. He was further ordered to pay $9,302,667.29 in restitution. As part of his plea agreement, Wild agreed to forfeit his home and all of its contents, his vehicles, his 401K pension plan with Memorial Hermann and any other financial assets in his possession in order to pay that restitution to Memorial Hermann.



# AUTOMATION = FRAUD PROTECTION

How can you protect yourself from B2B fraud and invoice scams? Be suspicious of requests for secrecy or pressure to act quickly. Always verify changes in supplier payment locations and confirm requests for transfer of funds before processing payments. The FBI also suggests creating intrusion detection system rules that flag emails with extensions that are similar to a company email but not exactly the same. For example, .co instead of .com.

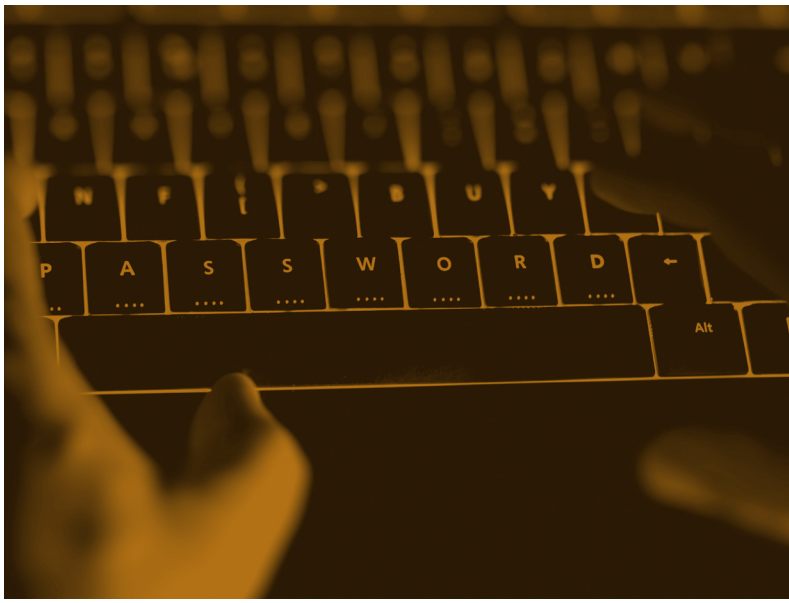
You can accomplish these necessary security tasks by automating your accounts payable processes. Automation enforces strict adherence to business rules, reducing opportunities to commit B2B fraud. Manual processes rely on post payment review to detect deviations from business rules. By the time you've detected an issue or discovered an error, the fraud has already occurred.

With automation, the key is to create a pattern of permissions so that no one person can:

- Create a supplier
- Enter an invoice
- Approve an invoice fully
- Enter an invoice into the accounting or ERP system
- Select that transaction for payment
- Print a check
- Reconcile transactions

The more people you put in this process that are subject to logins and software permissions, the more secure your process.

AP and payment automation ensure that your company's invoice and payment information is secure in a cloud-based environment that can be accessed anywhere that you have access to the internet. Automated fraud detection built into automation tools is one of your company's best lines of defense against fraudulent requests and duplicate requests for payment.




AvidXchange's always-on fraud detection system scrutinizes every invoice and payment request before it's a problem. A rules-based workflow engine lets you configure the appropriate actions and alerts you whenever unusual invoices are detected.

Bottom line: automating your AP and payment processes means eliminating the paper invoices and checks from your organization completely, reducing your processing costs, and protecting your company from fraudulent activity.

# An Obituary for Paper

## Rest in Pieces

On the evening of September 29, 2017, Paper died at the age of 2,195. Few were shocked, even less seemed to care.

Born in ancient China during the Han dynasty (206 BCE – 220 CE), Paper spread slowly to the west via the Silk Road. The child of papyrus and parchment, Paper got its start as wrapping or padding material to protect delicate objects. During the 3rd century CE, Paper graduated from wrapping to writing.

Produced by pressing together moist fibers of cellulose pulp derived from wood, Paper was an incredibly versatile substance. Paper enjoyed a long, successful career in a variety of roles: maps, letters, brochures, business cards, restaurant menus, newspapers, movie tickets, money, and more – Paper had it all!

Until, that is, Paper was diagnosed with a terminal illness: irrelevancy. Old-fashioned and obsolete, Paper was replaced by modern conveniences like Google Maps, eBooks, and ePayments, never to recover. The final nail in the coffin came from the accounts payable space. Paper took a backseat to AP automation. Mountains of paper invoices were eradicated by efficient software systems that allowed AP professionals to eliminate repetitive and time-consuming tasks, streamline processes, and gain real-time visibility into the financial health of their organizations.

Paper processes are survived by other frustrating tasks like going to the DMV, standing in line behind someone paying with a check at Target, and entertaining your in-laws, who were only supposed to visit for the weekend but have now decided to stay "a few extra days."

In lieu of flowers, the family of Paper is requesting that companies utilize AP and payment automation solutions like those provided from AvidXchange™. AvidXchange revolutionizes the way companies pay their bills by providing a solution that streamlines the entire accounts payable process–from invoice receipt through supplier payment. AvidXchange makes it easy to automate with a 45-day implementation guarantee and integration to more than 100 accounting systems.

A viewing for Paper will be held at 7 p.m. Friday around the Lexmark™ XS798de Multifunction Color Laser Printer in the back corner of the office. Burial will be held at 1 p.m. Saturday, in an old filing cabinet down in the basement.

# PRODUCTIVITY, BACK FROM THE DEAD!

This guide was created by AvidXchange™. AvidXchange revolutionizes the way organizations pay their bills. Serving more than 5,500 clients throughout North America and 300,000 vendors nationwide, AvidXchange is an industry leader in automating invoice and payment processes for organizations spanning multiple industries including Real Estate, Financial Services, Energy, Non-Profit, and Construction.

Interested in automating your payables and creating efficiencies for your AP team? Schedule a meeting with an AP automation expert to learn how you can increase efficiency and protect your business. Our automation specialists will create a customized demo and walk you through the streamlined workflow of an automated AP process.

## TO SCHEDULE A DEMO, CLICK HERE!