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BY RON RAND

Where's That Invoice? Streamlining Operations & Controlling Labor Costs

At 3:30 p.m. on a busy jobsite, all of the workers are getting ready to pack up – except for the supervisor, who is rifling through a six-inch stack of papers inside his pickup truck. He's been answering questions throughout the day, but now it's time for him to answer a critical question from the head office: Where's that invoice?

The invoice has been missing for more than 30 days. It hasn't been signed off. The head office is getting antsy, and if this goes on much longer, the CEO will start asking questions. The supervisor gets on the phone and starts trying to piece together what happened.

Meanwhile, across the state, the head of A/P is rifling through papers as well, searching for that same errant invoice. The cost of this search is climbing by the minute. And, this isn't the first time this has happened.

Thankfully, a host of small software tools can address numerous issues like the one just described. Your ERP system may already have these add-ons available, or you may be able to access these tools as stand-alones. If you haven't taken advantage of these tools yet, you may not be aware of just how much time and money they can save.

Known as third-party tools, these software products can be incorporated into a company's existing management system and work for contractors of all sizes, from start-ups to multi-million dollar operations.

Third-party tools are available in a range of costs and complexity and are compatible with a variety of software management systems. Your company's size and A/P needs are key factors in selecting the right software tools. The chart a few pages ahead breaks down key features and functionalities and outlines what users can expect at various levels. This chart can help your company prepare for the types of costs to expect and provide insight into the features it may need.

Critical Components of Construction A/P

Contractors that have experienced an audit or seen expenses rise beyond expectations know that successful management

of paper trails is what separates companies that thrive from those that don't, regardless of the current economic conditions. To successfully manage the components of the A/P process, automation is a critical factor for both managing the project and reducing overall costs.

Third-party tools are designed to automate and address these primary A/P challenges:

- Invoice scanning
- Automated Clearing House (ACH) payments
- Sales and use taxes
- Electronic data interchange

Invoice Scanning

As the opening scenario indicated, keeping track of invoices can be a nightmare. Adding scanning technology into the mix provides accessibility and reduces the number of "touch points" on that piece of paper, which significantly reduces human error.

In 2008, the Association for Information and Image Management (AIIM) quantified the cost of such risks. AIIM determined that companies spent \$20 in labor to file a document, \$120 to find a misfiled document, and \$220 to reproduce the document once it's determined as "lost." That's a total cost of \$360 for a single document.

A scanned invoice ensures the office has both the original and an electronic copy. In some instances, companies are opting to have their vendors submit invoices as PDFs, but that doesn't offer the additional features that integrate invoice information with the rest of your company's A/P management.

Tags & OCR

A company that scans invoices must determine the most efficient way to file them to meet their business needs. One key feature to consider is the ability to tag an invoice. Typical tags include vendor name, invoice, project number, cost code, and payment type. In addition, tags provide metafile capability,



which transmits a snapshot of information between the scanning software and the receiving software, allowing a document to be easily located later on. This can greatly assist in the event of an audit and provide valuable business intelligence. In addition, the search will generate a complete list of items with a copy of the invoice paired with each item and package it into a PDF bundle.

Another feature to consider is optical character recognition (OCR), which allows the computer to “read” the invoice. This steps-up the search capability by automating the process, eliminating the need to manually input tags. During the set-up, the user identifies key areas as listed previously; then, invoices can be found by searching these parameters. This feature also automatically fills data, such as the sender name and/or number, the invoice number, the invoice date, and even the amount.

Focus on Purpose, Not Scale

It’s entirely possible to operate a successful business using basic third-party tools. What makes the difference has more to do with how the company is structured. In a small operation, one employee may be able to handle a certain number of invoices per day, including scanning. Or, a company may choose to operate with a field of clerks who spend much of their time on A/P data entry.

On the other hand, a more complex operation (e.g., a company that operates with several legal entities) may require multi-company approvals. In these cases, a third-party tool would be available to add on to existing business management software or ERP.

ACH Payments

Not long ago, the best way to secure reliable subcontractors was to make sure their checks were ready for pickup when their runners arrived. Today, many consider that kind of payment system quaint at best, costly and time consuming at worst.

One alternative is to set up an ACH payment system, which eliminates many traditional steps in the payment process. Vendors can choose to participate simply by sharing their bank account and routing numbers.

Once set up, payment can be made immediately upon invoice approval – regardless of where the head office is located. Payment is guaranteed, and the subcontractor receives it much faster than snail mail or courier. Now your subcontractor has a faster cash flow, which helps make your company an attractive partner.

Depending on the software choices, the setup process may be an automated delivery of information to the bank, or it may require a file of your company’s pertinent information to be uploaded to your bank’s website. Large companies may have been using this type of service for some time, but now even smaller contractors can also have access using basic software programs.

ACH payments can eliminate postage and mailing costs and manual processes. In fact, according to a September 2013 survey by the Association for Financial Professionals quoted in *The Wall Street Journal*, half of U.S. businesses paid their bills by check, with the Bank of America estimating the aggregate cost of \$4-\$20 per check once writing, mailing, collecting, and reconciling is factored in.¹ Consider 50 checks twice per month, and yearly costs can be as high as \$24,000.

Sales & Use Taxes

Another area where third-party tools reduce frustration and employee hours is the calculation and management of sales and use taxes.

Tax policies vary considerably by state, county, and even municipality. There are also special levies that may be required for those companies working on a public sector contract across multiple states (e.g., a new highway).

Some states such as Oregon have no sales tax but do have state income tax. Texas operates in reverse – without state income tax, but with taxes for out-of-state purchases.

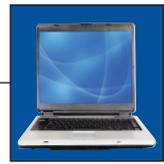
Taxes can also vary within a state. In Texas, for example, contractors pay taxes by project type – whether it’s new home construction, new commercial construction, or remodel construction. Taxes are also impacted by whether materials purchased are for use *inside* or *outside* the structure. So, you would pay taxes on the circular saw used to lay the foundation, but not on the lumber used for framing.

Add to these complexities projects where materials are purchased in one state for structural use in another state, known as “use tax,” and it doesn’t take long before time spent on calculations, reviewing policies, and cross-checking becomes exponential.

The bottom line is that with a subscription service, the provider is responsible for ensuring that your tax information is kept up-to-date in accordance with legislated changes. As part of the service, you are notified when either a download is necessary or the interface subscription has been updated.

What to Expect from a Third-Party Tool

PRODUCT/FEATURE	BASIC	MID-MARKET	PREMIUM
INVOICE SCANNING			
Cost* <small>*Expect annual maintenance and support fees on all but subscription services</small>	Monthly subscription, pay per transaction, or licensed purchase	Monthly subscription, pay per transaction, or licensed purchase	Monthly subscription, pay per transaction, or licensed purchase
Scanning <small>(for invoices not provided as PDFs)</small>	Manual	Manual	Manual
Link to Invoice	Manually input the link to storage location	Automated	Automated
Tags	None	Yes – manual	Yes – manual or automated with OCR option
Multi-level approvals	No	Varies based on product	Yes
Workflow management options	No	Varies based on product	Yes
Multi-company approvals	No	Varies based on product	Yes
ACH PAYMENTS TO VENDORS			
Cost	<ul style="list-style-type: none"> • Capability included with software • Charge per ACH bank transfer 	<ul style="list-style-type: none"> • Software modifications may result in varied costs • Charge per ACH bank transfer 	<ul style="list-style-type: none"> • Capability included or may require modification • Charge per ACH bank transfer
Secured through FDIC	Yes	Yes	Yes
Bank-to-bank payment	Lag time up to three days; varies by product	Immediate	Immediate
Encryption <small>(vendor's account and/or routing numbers)</small>	Varies by product	Varies by product	Yes
File delivery to bank <small>(provides routing numbers and amounts)</small>	Varies by product	Varies by product	Automated
SALES & USE TAXES			
Cost** <small>**Expect implementation costs in addition to product cost</small>	Varies by product	Varies by product <small>(annual subscription is most common)</small>	Varies by product <small>(annual subscription is most common)</small>
Calculates county, state, municipal, and sales and use taxes for single state	Varies by product	Varies by product	Varies by product
Sets tax rules by project	Varies by product	Yes	Yes
Precalculates sales taxes for POs	Varies by product	Yes	Yes
Ability to set and manage taxes for multiple states	Varies by product	Yes	Yes
Provides sales tax report	No	Varies	Yes
Update notification	May not be included	If subscription-based product, notification and updates occur upon legislative changes	If subscription-based product, notification and updates occur upon legislative changes
Automated updates for county and municipal taxes	No	Varies by product	Varies by product
ELECTRONIC DATA INTERCHANGE			
Cost	Unavailable	Varies	Subscription charge per transaction
Requires a certain volume of business	Unavailable	Varies	Yes
Customization or manipulation of data prior to importing	Probable	Probable	Customizable setup, and then automated import for subsequent data transfer
Export/import vendor data files	Unavailable	Varies	Yes
Lockbox banking	No	No	Yes



A third-party tool provides a variety of solutions that can automate all of these processes to ensure accuracy and that the tax amounts owed are clear. This reduces some of the cost and/or worry associated with potential fines and penalties.

Electronic Data Interchange

Back at the construction office, a new hire has been inundated with invoices for a new housing development. Yesterday, the paint vendor made its first drop shipment – 20 cans of exterior paint for each of the 200 homes in the subdivision. Now the new employee is sorting through the invoices, house by house, and inputting them into a spreadsheet. It's going to be a long day. And in two weeks' time, it will happen again when the interior paint, lighting fixtures, ceramic tiles, and the wide-plank hardwood are shipped.

An electronic data interchange third-party tool eliminates hours of work by connecting directly with the vendor through a file transfer. All of those paint invoices are placed in one data file (known as the output), then sent as an e-mail attachment that can be imported in seconds.

When the file is opened, the invoices are matched to the purchase orders, which saves time and money on the approval process. The software may allow for customization (i.e., the output file of invoices could be imported with little to no manipulation necessary).

Adding electronic data interchange can also be integrated with your bank, which allows the transactions in your system to be cleared and reconciled with your bank account. At the highest tier, you will also be able to import information from your bank's lockbox and customer deposits will show in your system as cleared.

Third-Party Tools Make More Profit Possible

Figuring out how to hold on to as much profit as possible has always been the real challenge to increasing the bottom line. Investing carefully in third-party tools can create savings in the back office – giving your company the opportunity to use these savings to maintain and ideally increase the bottom line.

New tools can be exciting, but it's important to take your time. Consider drafting an action plan, and make sure to include diagnostics and discovery before moving to design and finally implementation.

As part of your discovery for all of these tools, consider both the cost of the product as well as the cost of implementation. Also, ask for references from companies similar to yours about their experiences with the product before you buy to ensure the tools are the right fit for your company. ■

Endnote

1. Monga, Vival. "U.S. Companies Cling to Writing Paper Checks." *The Wall Street Journal*, www.wsj.com/articles/SB1000142405270230473280457942523344430424. (Subscription required.)

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