

TOWN of CARY
Case Study

Owning Our Piece

Improving Bill Paying



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Owning Our Piece: Improving Bill Paying

Executive Summary

Calls from vendors that submitted invoices but had not received payment increased at the Town of Cary in early 2018; not all of the Town's bills were getting paid on time. This sparked conversations among Cary employees from multiple departments who started to realize this was an organization-wide problem.

As a maturing municipality, Cary was paying for more products and services than it had in 1990 while trying to maintain the same level of service. However, between 2015 and 2018, the number of bills the Town was paying was no longer growing, yet they were taking 11 more days, on average, to pay.

Over Cary's biggest period of growth, the addition of many new employees meant that employees became more specialized, and Town processes began to involve more people. While the number of accounts payable technicians remained the same, a greater number of specialized staff were needed for departments to approve their purchases. By 2018, at least eight people were required to procure and pay for a good or service. As a result, staff began to lose sight of the bigger picture; they only understood their piece, not the whole process.

As a result of these, and other, factors, staff and vendors did not follow a single, streamlined process; they would often provide incomplete information, skip steps or submit documentation via different channels, including email and interoffice mail. Vendors would send invoices to both the department and accounts payable, resulting in duplicate efforts and extra emails.

What sparked the push for change was when a small group of employees decided to improve the procure-to-pay process. They focused heavily on diagnosing underlying problems rather than just implementing technical fixes.

In order to fully and efficiently tackle the technical problems, the Town of Cary consulted the Government Finance Officers Association (GFOA) to facilitate internal conversations and provide their recommendations. GFOA was tasked with working with staff to define existing processes, identify root causes of issues, identify alternatives, make recommendations on future processes, and develop an implementation plan. GFOA began interviewing stakeholders and mapping out the process a month later.

The Cary work group, which was made up of more than 50 employees from all departments, began two phases of workshops in July 2018. Participants worked together, with the assistance of GFOA, to map out Cary's existing process. Then, smaller groups explored how the process should work in the future as part of the exploration phase.

In December 2018, GFOA returned with 19 recommendations, ranging from short-term to long-term solutions, including stopping the use of email to forward invoices to clarifying roles to managing the vendor relationship. GFOA believed these recommendations would improve efficiency and consistency by standardizing the process.

One of the biggest benefits of this process was getting dozens of people in a room to learn what work went into paying bills and how their actions could impact others. The experience also offered staff in other departments a road map on how to evaluate other existing processes to determine what could be done more efficiently.

But there were still adaptive challenges, including trust and loss, blocking the Town's successful implementation of these technical fixes.

CONTENTS

Introduction	1
Background	2
What We Did	4
Adaptive Challenges	6
Baby Steps	10
Are We There Yet?	11
Resources	13

Introduction

It was the spring of 2018 when Water System Manager Alex Jones walked into the office of Terry Meyers, an administrative specialist in the Town of Cary's Public Works Department, and noticed the piles of invoices strewn across the top of her desk. That was when Jones realized the Town had a problem.

Jones previously recognized challenges when it came to the Town paying some of its bills on time when she joined the Utilities Department and vendors called wanting to know when they would be paid for chemicals.

Then she heard about the Cary garbage trucks being turned away at the gates of the Wake County landfill because of unpaid bills¹, and around the same time, one of the Town's major water treatment chemical suppliers refused to fill an order because the Town was months behind on payments.

The Town had reached a breaking point.

"Those are the two things that for me personally were the tipping point — where it was like, we can't do business like this anymore," Jones said.

But this tipping point turned into a turning point. It set a cross-departmental group of staff on a journey toward improving the procure-to-pay process, and it became one of the first documented cases of process improvement at the Town of Cary that took into consideration the underlying adaptive challenges.

How did the Town tackle this issue and handle all of the adaptive challenges that came along with trying to improve this process? Did staff spend enough time diagnosing the underlying problems before setting out on solutions?

¹The trucks were turned away because no invoice was submitted.

Timeline

July 9, 2018	Issue Raised in Adaptive Leadership Class
July 23, 2018	First Meeting in PD Training Room
September 25, 2018	First GFOA-Led Meeting
December 12, 2018	GFOA Presents Recommendations
February 2019	Small Group Adaptive Discussions Begin

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Background

When a Town employee needs to purchase a good or service, they begin the procure-to-pay process. First, they submit a requisition request to Procurement, which is responsible for helping staff procure goods and services based on regulations set by state statute. Once a requisition request is approved, Procurement issues a purchase order to a vendor. Then the department orders the good or service. Accounts Payable receives the invoice from the vendor and sends it to the department to ensure it's accurate. The department matches the purchase order with the invoice before alerting Accounts Payable that the bill can be paid.

At the Town of Cary, Accounts Payable and Procurement both fell within the Finance Department, with Accounts Payable located at Town Hall while Procurement was stationed at the Public Works and Utilities building two miles away.

Calls from vendors that submitted invoices but had not received payment increased in early 2018.

Kim Branch
Assistant
Finance
Director

“We try to get vendors paid within 30 days, but we were months behind on a few,” Assistant Finance Director Kim Branch said. “The only thing I can attribute to that is that we’d outgrown the process.”



The Town faced both adaptive challenges and technical problems when it came to Accounts Payable that resulted in staff not following a standard process.

“There is no ‘standard procedure’ for getting things processed through AP — everyone throughout the Town does things differently, for a lot of reasons,” Human Resources Operations Manager Kim Berthiaume said.

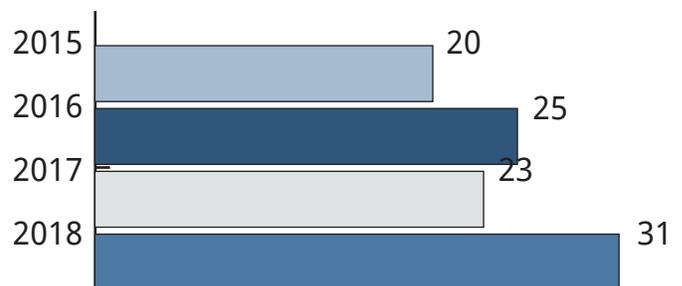
Distinguishing Technical from Adaptive Challenges

	What’s the Work?	Who Does the Work?
Technical	Apply current know-how	Authorities
Adaptive	Learn new ways	The people with the problem

As a maturing municipality, Cary, a town of 165,000 people, was paying for more products and services than it had in 1990 while trying to maintain the same level of service. However, between 2015 and 2018, the number of bills the Town was paying was no longer growing, yet they were taking 11 more days, on average, to pay.

Increased development in Cary post 1970 meant the Town had additional resources to expand in order to offer more amenities and services to its growing population. This allowed the Town to hire hundreds of new staff members over the years to take on this ever-expanding list of offerings.

Turnaround Time for Bill Pay (In Days)



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This also meant that employees became more specialized, and processes Town-wide began to involve more people. While the number of accounts payable technicians remained the same, a greater number of specialized staff were needed for departments to approve their purchases. By 2018, at least eight people were required to procure and pay for a good or service. As a result, staff began to lose sight of the bigger picture; they only understood their piece, not the whole process.

Finance Project Manager Andrea Johnson, who previously supervised Accounts Payable, said there always was a standard process to get a bill paid, but previous accounts payable technicians would often make exceptions at the request of a vendor or staff.

Andrea Johnson
Finance Project
Manager

“I think for a long time our culture was about saying ‘yes’ to our vendors. No matter what we had to do, legally, to get there, we were going to do what we had to do for them,” she said. “But I didn’t realize how much the departments felt like there wasn’t a process because of all these variations.”

As a result of these, and other, factors, staff and vendors did not follow a single, streamlined process; they would often provide incomplete information, skip steps or submit documentation via different channels, including email and interoffice mail. Vendors would send invoices to both the department and Accounts Payable, resulting in duplicate efforts and extra emails.

“I think somebody said that she got hundreds of emails a day,” Jones said. “There’s no way any human being can keep up with that. That’s unsustainable to have a system that requires that amount of email.”

The Town had also been utilizing NaviLine software for this procure-to-pay process for more than 30 years,

but the nearly 30-year-old product had limitations, including lacking in the ability to track invoices. This left Accounts Payable staff having to manually check the status of an outstanding invoice through a combination of paper copies, electronic files saved on a separate software tool and emails to others involved in the process.

“There is nowhere centrally where you can look it up,” Jones said. “You have to cross check, and you do double work.”

At the same time, not everyone involved in the process knew how to use the software to the fullest extent.

The Town’s broken process to pay its bills was putting too much pressure on its employees.

“I knew right away it was more than what I had expected it to be,” said Accounts Payable Technician Susan Legall, who joined Accounts Payable in February 2018. “It was probably one of the hardest jobs I’ve ever had. The job was getting done but under duress on our end. It was very overwhelming.”

Susan Legall
Accounts
Payable
Technician

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What We Did

What sparked the push for change was when Kim Branch shared these struggles in an [Adaptive Leadership Class](#) she participated in the summer of 2018. The class of 19 Town employees began to discuss the issue more in depth. Then, a smaller group made up of Jones, Kim Branch and Fire Chief Mike Cooper decided to tackle the issue and its adaptive challenges in order to apply what they learned from the class to their work in the organization. They focused heavily on diagnosing underlying problems rather than implementing technical fixes.

In order to fully and efficiently tackle the technical problems within the procure-to-pay process, the Town of Cary consulted the Government Finance Officers Association (GFOA) to provide their recommendations. GFOA was tasked with defining the existing process, identifying root causes of issues, identifying alternatives, making recommendations on future processes, and developing an implementation plan. GFOA began interviewing stakeholders and mapping out the process a month later.

“I think it’s really important that we come up with a solution together instead of Finance coming up with a solution and then telling people what to do,” Accounting Manager Jessica Randal said. “I think it’ll come out a lot better for the people who do the work to come up with it.”

The work group, which was made up of more than 50 employees from all departments, began two phases of workshops in July 2018. Participants worked together to map out the Town’s existing process as part of the discovery phase. During one exercise, the team broke up into two groups, with Finance staff in both, to map out the existing processes. The problem was both groups came up with different processes.



Then, smaller groups explored how the process should work in the future as part of the exploration phase.

In December 2018, GFOA returned with 19 recommendations, ranging from short-term to long-term solutions, including stopping the use of email to forward invoices to clarifying roles to managing the vendor relationship. GFOA believed these recommendations would improve efficiency and consistency by standardizing the process.

“Standardizing the process is the key to making things efficient,” said Mike Mucha, Deputy Executive Director of GFOA.

One of the biggest benefits of this process was getting dozens of people in a room to learn what work went into paying bills and how their actions could impact others.

“If nothing else, it gives colleagues the opportunity to be invited into each other’s world, and it gives everyone more of an understanding of what everybody goes through,” Accounts Payable Technician Diamond Branch said.

Diamond Branch
Accounts Payable Technician

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For example, when Procurement sought to make their process more efficient, its staff created a folder in a town-wide shared drive to collect necessary documentation. However, staff began submitting accounts payable-related files into this folder too — a folder that Accounts Payable staff didn't check because it wasn't theirs.

Jessica Randal
Accounting
Manager

"That's the big thing. Purchasing versus AP. We work closely together, but they're different things," Randal said. "Sometimes Purchasing will make changes that don't have anything to do with us, but people think we're all one."

The experience also offered staff in other departments a road map on how to evaluate other existing processes to determine what could be done more efficiently.

"I think if all of us in our departments looked under the rug, we'd definitely see things that were swept under there that aren't as efficient as they should be or need to be," Assistant Human Resources Director Laura Turk said. "We're challenged every day to examine and improve many of our existing processes."

In order to implement the GFOA recommendations, the Finance Department requested assistance from additional staff, and a group of 21 people volunteered to help over the following year. One major recommendation — to start planning for the replacement of NaviLine — would not be a priority right away because there were still underlying adaptive issues to be addressed, Kim Branch said.

At the same time, the Finance Department sought to map out and assess the other processes, including procurement and payroll, that would utilize this new technology.

"By doing these process maps ahead of time, we can pinpoint where there are inefficiencies because of our process and what are because of NaviLine," Johnson said.

Andrea Johnson
Finance Project
Manager

But there were still adaptive challenges blocking the Town's successful implementation of these technical fixes.



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Adaptive Challenges

For the first AP Summit meeting, more than 50 staff members from across the organization sat in a circle in the Police Department Training Room. People clustered in groups of twos and threes with those they worked with in their departments while the Adaptive Leadership Class tried to disperse themselves throughout the room to avoid creating coalitions of Finance and administrative staff.

Kim Berthiaume
HR Operations
Manager

“It felt like factions existed in both sessions, and people within the groups were defensive and protective of their areas,” Berthiaume said.

Following GFOA’s recommendations, Jones, Cooper, Kim Branch and a few others met to discuss those unresolved adaptive challenges staff would face when implementing these technical solutions. These included rebuilding relationships, loss and trust.

“Whether we have the technical stuff in place, if we can’t get the relationships to line up with that, if we can’t get our communication to be appropriate, if we can’t get the understanding to be appropriate, then any process we get isn’t going to work,” Kim Branch said.

Owning Your Piece

Most of the staff that participated in the analysis with GFOA referred to the exercise as the “AP Summit” or “AP Process.” But using those names implied that the problem lied solely in AP, Diamond Branch said.

“It’s like they were saying ‘We need to fix your mess,’” she said. “And it stung. ... And when they say, ‘We need to get the bills paid on time,’ that burns me up because people don’t realize how many bills are paid

on time versus those that have a complaint.”

The AP Summit helped many that participated understand that it was the process that was broken and that issues extended well beyond Accounts Payable.

“What was most clear to me is that no one understands what’s going on because there is varying understanding and guidance coming from Finance and a lack of something — motivation/interest/time? — from the AP ‘users’ seeking to understand,” Berthiaume said.

The Summit helped the “AP users” recognize and own their piece of the mess by providing them an understanding of the full process, their responsibilities and how their actions could create more work for others.

“I feel like my part of the mess was never really reaching out to understand the process,” said Susan Bradley, operations and program supervisor at Cary Tennis Park. “I learned how to use NaviLine mostly by being trained by other PRCR staff. I never asked ‘why’ and never realized the burden the AP staff was under with so many departments funneling in so many invoices, requests for favors, interactions with vendors and all the paper Finance staff had to deal with.”

Susan Bradley
Operations
& Program
Supervisor
Cary Tennis
Park

Bradley was not alone. Through the Summit, the accounts payable technicians realized the administrative specialists didn’t fully understand what work really went into a bill getting paid. Legall said when she and a team of administrative specialists were tasked with mapping out the requisitions process as part of the discovery phase, the team stepped back and let her do it alone.

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"I just noticed that, hey, maybe they don't know what I thought they knew," she said. "So that was a good exercise."

And not knowing the process meant that the users were making a lot of mistakes.

"It's okay for people to make mistakes. That's our job," Randal said. "But when there are so many mistakes, we just can't get to everything."

Some staff during the Summit exhibited frustration, saying they were willing to learn the process correctly and more holistically but didn't know where to go to make that happen.

In response, Accounts Payable wanted to be more proactive about training, which slipped through the cracks after someone in the department retired, Randal said. To put in place a technical fix while the bigger picture work was underway, Randal created a step-by-step guide to educate staff on how to look up requisition and purchase order information in NaviLine.

"That's on the forefront of my mind," she said. "That's what we're working on now."

Rebuilding Relationships

"When you are too quick to lay blame on others, whether inside or outside the community, you create risks for yourself. Obviously, you risk misdiagnosing the situation. But you also risk making yourself a target by denying that you are part of the problem that you, too, need to change ... But if you are with them, facing the problem together and each accepting some share of responsibility for it, then you are not as vulnerable to attack."

Leadership on the Line - Page 90

Over time, bills not being paid on time began to create friction between staff involved as they began to make assumptions about who or what was bogging down the process.

"What I was surprised about was how we as staff treated each other when we don't agree," Kim Branch said.

Legall had been with the Town six years when she joined the Accounts Payable team, but she said some staff treated her like she didn't know how to do the job.

"I felt like I was being treated like I was new to the Town," she said. "They were really rough on me."

Legall said she felt like her qualifications were being questioned or that her role was assumed to be easy or clerical in nature.

"We have bachelor's degrees in finance and business management, so we're not new to the party either," she said. "I took it kind of personally. We're working with the resources we have and just trying to make the best of it."

Owning Our Piece: Improving Bill Paying

Kim Branch said that while some of these relationships had been improved, she believed some of them had been “worked around” or “avoided.”

“There are relationships that people are having to re-establish because of a breakdown in communication in the past,” she said.

Loss

“Adaptive change stimulates resistance because it challenges people’s habits, beliefs and values. It asks them to take a loss, experience uncertainty and even express disloyalty to people and cultures. Because adaptive change forces people to question and perhaps redefine aspects of their identity, it also challenges their sense of competence. Loss, disloyalty and feeling incompetent: That’s a lot to ask. No wonder people resist.”

Leadership on the Line - Page 30

Town-wide, staff also felt loss throughout the Summit as people started to realize that the way the Town did business had to change, and they had to change in order for things to get better.

In particular, one challenge staff faced was getting others, and sometimes themselves, to accept that the changes necessary to making the process more efficient may remove or lessen their role in the process, but that this did not make them any less valuable as an employee.

“Some department directors feel like they have to have their eyes on everything,” Kim Branch said.

Another loss staff was experienced was when it came to the perception that the Town was lowering its service levels by considering lengthening the minimum amount of time it would take for a bill to be processed and paid.

“For my staff when I communicate with them, I try to help them understand that they’re still providing good service, even if our definition — our turnaround time — is different than it was 20 years ago,” Kim Branch said.

Johnson had only moved from her position supervising Accounts Payable six months before the Summit after serving in that role for 22 years and building the process under discussion. She said it was difficult to hear since the Town was, for years, known as a place that vendors wanted to work with because of the its quick turnaround time when it came to paying its bills.

“We did it, and we did it well for years. So to accept that the process was breaking down and wasn’t going to serve us into the future took a few minutes,” she said. “I had to take a step back and realize that everybody wasn’t saying that everything I had built was wrong. They were saying it served us well during that time, but now it was time to evaluate some different processes.”

Trust

Numerous role changes in the Finance Department were one of the main factors that negatively impacted trust and employee relationships; staff were still getting to know the new members of Finance following a wave of promotions and retirements when the issue came to light.

When Human Resources Consultant Stacey Escamilla joined the Town as an administrative assistant in the Fire Department in 2014, she was responsible for facilitating the purchase of items for the department.

“Everything was smooth,” she said. “That’s just how I remember the process being when I came on at Fire Admin.”

Then, Escamilla began to notice different levels of service, particularly when it came to communication, as

a result of new staff. For example, she said the previous accounts payable technicians would automatically make an adjustment if an invoice came back with a slightly different cost from the purchase order. However, the new technicians sent staff back to procurement to get that adjustment before they would pay the bill. And Escamilla didn't remember ever being told why.

At the time, Escamilla understood they were in a transition and the Accounts Payable staff was still learning, but that perception didn't persist.

"How I saw it was, 'Okay, the person who was there before them was paying the same amount of bills,'" she said.

And when Assistant to the Town Manager Kerry Harville joined the Town in 2018, she also noticed inconsistencies and gaps in the process when she requested a bill be paid.

"There was no acknowledgment," she said. "You don't know if they are actually working on it. My big comment to them was even though you are using an outdated system, you can just acknowledge it."

At the same time, Procurement, another division within Finance, underwent a wave of retirements. When Procurement Manager Ishani Padmaperuma¹ was promoted she felt like she was expected to maintain service levels while trying to learn the position and an email heavy process, as well as hire and train new people.

"I think a lot of folks expected it to be business as usual from Purchasing," Jones said. "But there was no way it could be business as usual because nobody was there that had been there before, and they weren't left any documentation for how to proceed."

Padmaperuma knew when she started her new role that some of the processes were unsustainable. In response, her team made a quick fix to keep the work as

manageable as possible.

"It was a simple fix, but the feedback was 'Why are you doing that?'" she said.

While the fix seemed simple, underlying adaptive issues that had yet to be addressed would keep it from being fully successful.

"People did not trust that Procurement had their best interests in mind," Jones said. "They felt like it was another gatekeeper action, helping Procurement but not one else."

Avoidance of the procurement process led to more work for Accounts Payable. For example, if a staff member had the perception that Procurement was going to slow them down in securing a good or service, they may skip the step entirely, forcing Accounts Payable to send them back to complete that step before the bill could be paid.

"They were trying to get around Procurement for expediency," Jones said. "They were perceiving Procurement as this roadblock, gatekeeper. So, there were avoidance behaviors happening."

Other staff would submit a requisition request, but instead of waiting to receive a purchase order, they went ahead and paid with a P-Card, resulting in Accounts Payable having to spend extra time reaching out with questions about what happened and whether they still needed to pay the bill.

While there were adaptive challenges Town staff would need to tackle together to create a successful, new process, the Summit did help make many people more receptive to change.

"If I can wear a t-shirt that says, 'Feedback welcome' I would," Padmaperuma said. "I think it was good for the organization to see something like that can happen and that people should be receptive to getting other people's input."

¹Padmaperuma left the Town of Cary spring of 2019.

Baby Steps

When Jones realized the gravity of the situation, she began to push for process improvements within the Utilities Department.

Alex Jones
Water
System
Manager

“I felt like it was important to own our piece of the mess,” she said. “I even said to the staff involved that we can’t be mad at AP until we fix our stuff.”

And John Holloway, public works and utilities operations support manager, learned how to submit invoices to Accounts Payable on his own.

“He really impressed me,” Legall said. “He was committed from beginning to end. He came to every meeting so that was impressive.”

This was a common theme following the AP Summit — those who participated seemed open to change.

“As we have worked through this process, I now have a face to associate with the name on the email,” Bradley said. “I feel a sense of responsibility for doing my part of the process in a more timely manner, being more careful not to make errors and trying to head off those rare special requests.”

Twenty-one people, including many outside the Finance Department, volunteered to help Accounts Payable adopt the GFOA recommendations. And Ken Hawley, the Town’s first Director at Large, stepped in after the Summit to coach Finance through the adaptive challenges.

“Ken was certainly a welcomed member to the team, as his ability to get people engaged in the dialogue on adaptive issues has been invaluable,” Kim Branch said. “I can certainly tell he has been in the game of developing relationships for a long time.”

It was this partnership — camaraderie at a new level — that would make the difference as the Town implemented change. Staff across departments would need to come up with the solution together.

“With perspective, I can see our mistake,” Chief Financial Officer Karen Mills said. “We adopted an approach of customer service at all costs. We saw every process exception as an opportunity to provide exemplary customer service and be a team player for other employees. Now I see that by taking on too much, we also took away the opportunity for others to learn, participate and own their part of the process and financial responsibilities. In the extreme, what we saw as customer service was a disservice to the organization. I see Finance employees enjoying the new approach because it feels a lot better to be a true partner with our colleagues. We can still provide service to facilitate their business processes at the right scale and enjoy the partnership.”

Are We There Yet?

"If you have been in a senior role for a while and there's a problem, it is almost certain that you had some part in creating it and are part of the reason it has not yet been addressed. Even if you are new, or outside the organization, you need to identify those behaviors you practice or values you embody that could stifle the very change you want to advance. In short, you need to identify and accept responsibility for your contributions to the current situation, even as you try to move your people to a different, better place."

Leadership on the Line - Page 90

Despite the days of work mapping out the Procurement and Accounts Payable process and determining the pain points to come up with solutions, months ticked by with few major changes.

"We've not fixed the process," Jones said. "We have started on the journey. We have identified the problem and have kind of the path forward about how we are going to start implementing the solutions. But we definitely haven't fixed things yet. Work remains to be done."

Part of the work that remained included overcoming a resistance to change that was present despite a desire from the group to improve efficiencies. Staff quickly realized change was easier said than done. That it was difficult to change habits no matter how dedicated you are to creating a more efficient process.

"We need change agents," Legall said. "You can be open to change but you have to put your money where your mouth is. You have to be able to take on whatever new technology or scenario is presented. Everyone needs

to be open to changes that will enhance the process." Legall said instead of emailing invoices, some staff and vendors continued to print and mail them to accounts payable, which adds extra time to the process. Other vendors were still unable to accept small payments via credit card or electronic transfer and require a paper check to be mailed, further lengthening the process.

Because Accounts Payable noticed a difference in administrative staff behavior between those that attended the Summit and those that didn't, they wished more people could have been involved.

"I wish that we would've had as many people as possible touch this process not just a sample," Randal said. "Because a sample isn't really going to change us adaptively. And we can tell the difference in the people who came and the people who didn't come."

**Jessica
Randal**
Accounting
Manager

Since the AP Summit was a time for staff involved in the process to ask questions to better understand it, Legall often caught herself asking why some administrative staff weren't in attendance. But she said after the Summit, she realized she could have reached out to them personally to invite them to participate.

"Now when I reflect, I think maybe that would have been a good approach, instead of wondering, 'Where is this person?'"

While a lot of learning had occurred nearly a year after the issues were first brought up, there was still much to learn about the adaptive issues and about each other.

"At the end of the process, I came away with the reminder that until we walk in someone else's shoes, we have no real concept of how a process ends up broken," Bradley said. "It also reminded me that change,

Owning Our Piece: Improving Bill Paying

personal or professional, is difficult, especially the closer you are to the area of scrutiny. Finally, patience and an open-minded approach to understanding each perspective and working toward change for the greater good, rather than holding on to 'tradition,' is necessary and not always easy."

Resources



Kim Berthiaume
Human Resources
Operations Manager



Susan Bradley
Operations &
Program Supervisor
Cary Tennis Park



**Diamond
Branch**
Accounts Payable
Technician



Kim Branch
Assistant Finance
Director



**Stacey
Escamilla**
Human
Resources
Consultant



**Kerry
Harville**
Assistant to the
Town Manager



**Andrea
Johnson**
Finance Project
Manager



Alex Jones
Water System
Manager



Susan Legall
Accounts Payable
Technician



Karen Mills
Chief Financial
Officer



**Ishani
Padmaperuma**
Procurement
Manager



**Jessica
Randal**
Accounting
Manager



Laura Turk
Assistant Human
Resources
Director



**GOVERNMENT FINANCE OFFICERS ASSOCIATION
(GFOA)
RESEARCH AND CONSULTING CENTER**

Town of Cary, NC

November 2018

Process Assessment - Purchasing / Accounts Payable

GFOA Recommendations



Table of Contents

- I. About the Project..... 3**
 - A. Purpose..... 3
 - B. Project Scope 3
 - C. Project Approach 4
 - D. GFOA Principles..... 4
- II. Process Analysis 5**
 - A. Purchase Requisitions 5
 - B. Purchase Orders 6
 - C. Contract Management..... 7
 - D. Vendor Registration..... 8
 - E. Invoice Processing 8
 - F. Other Considerations 10
- III. Recommendations 10**
 - A. How can we pay bills on time? 11
 - B. How can we streamline the AP process to be more efficient? 15
 - C. How can we improve communications between Town departments? 17
 - D. How can we better work together? 17
 - E. How can we create process to meet challenges in the future? 19
- IV. Appendix..... 21**
 - A. Current Process Maps 21
 - B. Future Process Map..... 21



I. About the Project

A. Purpose

GFOA is leading a project for the Town of Cary to improve the Town's procurement and accounts payable process (procure-to-pay process). At the initial meeting, the question of "why are we doing this?" was posed to participants. The top responses are listed below (*note: duplicate or similar responses were not listed*).

Response
To pay bills on-time
To create a consistent, easy to understand process that meets the needs of the Town and ensures vendors are paid correctly and on-time
To streamline the AP process and be more efficient
To understand what exactly our AP process is now and find out where inconsistencies and gaps are
To improve communication and understanding for the AP process
We can't continue on the path we're on. We've reached our breaking point.
To pay bills on time and maintain great working relationships with our vendors

In further discussions on the topic, including in departmental interviews, the general consensus of the group was that the project will provide answers to and work to solve issues related to the following questions?

- 1) How can we pay bills on time?
- 2) How can we streamline the AP process to be more efficient?
- 3) How can we improve communications between Town departments?
- 4) How can we better work together?
- 5) How can we create process that grows with the Town and is able to meet challenges in the future?

These five questions will serve as the outline for GFOA's recommendations and help organize part 3 of this report. It will also provide a framework for considering and prioritizing strategies for implementation. Some of the questions relate to short-term issues (pay bills on time) while others solve mid-term issues (improving communications) or long-term considerations (meet future challenges).

B. Project Scope

GFOA has defined the procure-to-pay process as a series of related processes that work together to accomplish a specific outcome for the Town and its departments (purchase good/service and pay vendor). Because of the integration and interdependence between purchasing and accounts payable, GFOA has expanded the original scope of accounts payable to include several purchasing processes. The full scope of the project included the following processes:

- Purchase requisitions
- Request for payment (no purchase order)
- Purchase orders
- Contract management



- Invoice processing
- Payment processing
- Vendor management

During discussions, it became necessary to also involve p-cards in the general scope of the project as well. Recommendations for p-card use and integration of p-cards into the full procure-to-pay strategy is included, however GFOA focused less on analysis of current p-card process. All other purchasing and accounts payable processes are not considered to be directly (or indirectly) related to the primary purpose of the project as define above and thus out of scope for this project.

C. Project Approach

For this project, GFOA is using an approach focusing around the following steps:

- 1) **Define the current process.** Critical to the success of the project is having all project team members understand the current process and the steps taken by each stakeholder along the way. Often, GFOA finds that lack of understanding of the current process leads to inefficiency, redundant work, and unclear expectations on service level. GFOA facilitated meeting with Town staff to create process maps (found in Appendix to this report) that documented the current process.
- 2) **Identify root cause of issues.** GFOA facilitated a meeting with Town staff to identify the root cause of issues identified during the process mapping sessions. GFOA borrowed from popular “Lean process improvement” tools including the fishbone diagram and 5-why analysis to assist in trying to identify the root cause of issues.
- 3) **Identify and discuss alternatives.** While generally understood “best practices” do exist, they also need to be interpreted for the Town. In addition, the Town’s unique environment, needs, or expectations may present a case for considering other alternatives or variations to a “best practice” theme for possible solutions. GFOA proposed options and facilitated discussion for various process “tweaks” as part of the process analysis workshops.
- 4) **Make recommendations on future process.** This report provides recommendations and explanation for process changes based on GFOA’s information gathering, process analysis, workshop and interview discussions, past experience, and best practice knowledge. Recommendations, organized by the five major questions that defined the purpose of this project are presented in section three of this report.
- 5) **Define future process and develop implementation plan.** After reviewing GFOA’s recommendations and making decisions on the future process, the Town will need to work to develop an implementation plan. It is expected that decisions will address issues in short, medium, and long-term time horizons.

D. GFOA Principles

Throughout this project and in all GFOA process and system improvement projects, GFOA adheres to several themes or principals when providing recommendations and guidance. Those principals will help to understand GFOA’s specific analysis in the next section and the recommendations in section 3.



- 1) Where possible, the Town should attempt to cut down on the quantity of transactions and work to eliminate unnecessary complexity.
- 2) Process standardization is preferred, but not always possible.
- 3) The system should support the process - Not the process built around the system.
- 4) Use of multiple systems is often redundant, when multiple systems are required, it is important to clearly define role of the system and how systems work together.
- 5) Approval steps need to be clearly defined so approvers know “what” they are approving.
- 6) Process steps should clarify the “producer” and “consumer” role. Stakeholders need to understand the value they add to the process and the perspective of their customer.
- 7) Processes should be documented. Process documentation also needs to be easily understood.
- 8) The process must work for all stakeholders. No single user is more important in the process. An efficient process relies on having a process that works in the best interest of the entire organization, not one department or individual.
- 9) Change is difficult, but in many cases, it is also necessary. It is better to experience some temporary disruption than to continue with an inefficient process.
- 10) Change must be coordinated throughout the organization. This is not an issue for one department.

II. Process Analysis

GFOA facilitated discussions with Town staff and developed process maps for each of the processes listed in scope for the project. The following section provides an overview for each process, lists GFOA’s observations of the process, and notes key questions to answer as the Town moves forward. The GFOA observations are intended to identify issues, inefficiencies, abnormalities, areas for improvement, areas of confusion, or unique aspects for consideration. GFOA’s observations are only that - observations based on discussion from meetings. In cases where there is not a standard process or where standard processes may not be followed across the organization, observations may not apply to all departments and/or users.

A. Purchase Requisitions

Process Overview. For many governments, the purchase requisition is a transactional record with a purpose to request the purchase of a good or service. A requisition is also used to reserve budget, document formal approval for moving forward, and facilitate creation of a purchase order.

With the Town’s process, requisitions are entered into NaviLine to document the “formal” approval process that is required by purchasing prior to creation of a purchase order. Many departments will have an “informal” approval process that is required prior to creating the actual requisition. In addition, many times the requisition is entered after the item has been procured as a method of completing the necessary process for initiating payment. When policy requires the department use an RFP or bid, the requisition is entered at the end of the process.

Staff noted some challenges with processing requisitions that were related to NaviLine limitations. Most significant were how difficult it is for supervisors to know there is a requisition to approve, challenges in



storing necessary information on a requisition, and the inability to attach documents (like quotes) to the requisition.

GFOA Observations

- Staff are required to process requisitions in NaviLine, however they also use the file server (to store quotes) and email to notify approvers of pending approvals.
- Many department directors do not realize there are requisitions to approve. Staff then resort to notifying the approver outside of the system of a pending approval. Most often, the item has been approved informally at some other point in the process. The approval in NaviLine is just the formal approval that needs to be documented for PO creation.
- Requisitions are often entered after the item is procured. In the event of a bid or RFP, requisitions are entered after the solicitation.
- If a vendor does not exist, the requisition is held until the vendor is formally registered

Key Questions

- What is the purpose of a requisition?
- What approvals are necessary?
- Who is responsible for validating budget availability?

B. Purchase Orders

Process Overview. A purchase order is a formal document generated by an organization to order the purchase of a good or service. A purchase order usually details the exact goods or services to be purchased from a single vendor. It will specify payment terms, delivery dates, item identification, quantities, shipping terms and all other obligations and conditions.

Purchase orders are used by the Town to notify vendors of all orders over a set dollar amount. However, because the Town largely has a decentralized purchasing process (where departments maintain contacts and relationships with vendors) and a centralized purchase order process (where a PO comes from a centralized purchasing department), there is an inconsistency in managing that Town/vendor relationship. Also, because many of the Town's purchases fall below the set purchase order threshold, many departments can procure goods or services from vendors without going through purchasing.

In addition, the process for creating the purchase order is extremely manual and utilizes multiple systems. Documents in the system are printed, signed, and scanned to another file storage system. In addition, departments manually track purchase order number and transaction history in various excel spreadsheets, paper files, and other shadow systems.

GFOA Observations

- Purchasing is largely a decentralized function at the Town, but purchase order creation (and distribution to vendors) is centralized.
- Vendors must deal with getting orders from purchasing (though PO) and from departments (for purchases less than the PO threshold).
- Purchase orders are created after goods/services have been received as method of paying invoice



- The Town has a manual / paper based process for creating purchase orders. GFOA is not aware of many other governments that require hard copy signature on purchase orders.

Key Questions

- How can Town avoid situation where items are procured without a purchase order?
- Can the Town move to electronic purchase orders?
- How can the Town improve communications between purchasing and the departments?
- How can the contract process and purchase order process be more synchronized?
- Who should be primary contact point for vendors in procurement process?

C. Contract Management

Process Overview. Contracts are formal agreements between an organization and a vendor that outline a transaction for goods and services. Contracts are used for good/services with needs outside of what the traditional purchase order terms will accommodate. Contracts are also used for high dollar value purchases that result from RFP or bid process.

The Town's contracting process is decentralized. Departments will utilize a "Town approved" template for beginning contract negotiations, but are largely responsible for negotiating their own contracts (with assistance from Town attorney, risk, or purchasing).

The contract management process utilizes a contract control form (CCF) to document approvals. The CCF is created in a separate system and is used to track approvals. This is in addition to approvals required on the contract itself and in NaviLine (for requisition and purchase order). The Town also uses DocuSign for some departments for executing the document. In at least some cases, when DocuSign is used, a hard copy signature is also required.

Once complete, contracts are stored in LaserFiche or in filing systems with each department.

GFOA Observations

- It is not clear the purpose of the CCF system. The approval process appears to be redundant with the purchase requisition/ PO process and the approval process on the contract itself.
- Contract creation is a decentralized process and each department will have slightly different process for contract creation.
- Standards do not exist across the Town for contracts. For example, DocuSign is not used a standard for all departments. LaserFiche is not used a standard for all documents. When the either of the system are used, department do not have a consistent understanding of requirements for a hard copy contract.
- Purchasing is reviewing contracts after they have been negotiated.
- The Town does not use cross-departmental contracts (or does not set processes to guide how they are established or managed).



Key Questions

- What value does CCF have in the process?
- Who is accountable for contracts at the Town?
- What should be role for purchasing in contract management?

D. Vendor Registration

Process Overview. The vendor file defines and tracks all information related to specific businesses utilized by an organization to procure goods and services. The primary purpose of the Town's vendor files is to maintain payment information and for tracking vendors for 1099 reporting.

All vendors are stored in NaviLine. When a department wants to purchase good/services from a new vendor, the vendor must first be added to the system. A department will initiate the process by sending the Town's new vendor packet to the vendor. Vendors can either return the packet to the department or to AP. (the form's directions indicate to send to AP, while many departments instruct the vendor to send back to the department). Upon receipt, the completed packet is sent to AP for processing.

GFOA Observations

- There is not a standardized process for vendor additions. Completed vendor applications can go to departments or AP.
- AP does not handle all information that may be required to use the vendor. Some registration information (licenses, insurance) are processed or reviewed outside of AP.
- Vendor registration often results in a delay in the process. The process will either hold up entry of the purchase requisition or creation of a purchase order. When delays occur, there is not good communication between departments on status or when registration is completed.
- It is not uncommon for departments to receive goods/services from a vendor that is not registered and then complete registration process as part of getting invoiced processed.

Key Questions

- Who should be responsible for vendor registration?
- What is the department's role in vendor registration?
- What is purchasing's role in vendor registration?
- At what point in the process should vendors be registered?

E. Invoice Processing

Process Overview. Invoice processing is simply how the organization reviews, approves, and processes invoices for payment. The Town's process is used to process invoices for purchases linked to POs, for those without POs (where the dollar amount is below the PO threshold), and for employee reimbursements.

The Town administers the process using primarily email and NaviLine. For invoices linked to POs, staff sign off on the invoice and process a PO receipt in NaviLine. For invoices not linked to POs, staff sign off on the invoice and create a payment request in NaviLine. A payment request is very similar to a requisition, but does not result in a formal purchase order that is sent to a vendor.



AP will match the invoice to the appropriate transaction record in NaviLine (payment request or PO), print the documents for retention purposes, and then key in invoice for payment.

The Town has prioritized making electronic payments to vendors, which is a GFOA best practice.

GFOA Observations

- Invoices are received both centrally by AP and decentrally by departments. The lack of standardization creates issues and significant delays in the process.
- Invoices that are received in electronic format are printed.
- Invoices are reviewed a multiple points in the process.
- If there are issues with invoices, the Town the burden for processing the invoice is increased.
 - If the invoice amount is higher than PO amount, the Town will process a PO adjustment prior to paying the invoice.
 - If PO# is missing on the invoice, central AP staff have difficulty routing to correct department.
 - If vendor is not already registered, it can be time consuming to get vendor registered.
- Even though NaviLine is the official Town financial system, the AP process is largely conducted through email. Scanned invoices are sent to AP, follow up emails are common to inquire on status, and emails are used for additional instructions on payment.
- AP staff split invoices by letter of the alphabet (of the vendor). This may not be the most even split of workload. It is also unclear why the split is necessary or what objective it serves.
- The Town's process of requiring vendors to acknowledge PO receipt is redundant with process to sign off on invoice.
- Departmental sign off on invoice may be different than NaviLine acknowledgement of receipt. Not all department staff have access or prefer to use NaviLine.
- The Town processes many invoices for goods/services that many be more appropriate for another process
 - Can employee boot/shoe reimbursement be paid as uniform allowance through payroll?
 - Can p-card be used for more small purchases?
- When the Town processes request for payment, Purchasing still processes a PO for purpose of matching to invoice. The PO never goes to the vendor.
- The Town does not have a standard process for disputing invoices
- The Town does not track invoices prior to getting to AP. The Town does not have a Town-wide method of tracking invoices.

Key Questions

- Where should vendors send invoices?
- What approvals are necessary to process invoices?
- What is the purpose of the PO receipt process? How is this different than the department invoice approval process?
- Why is purchasing involved in small dollar purchases?
- What is the role of AP in approving invoices? How does this differ from role of departments?
- Could the Town use matching tolerances to reduce number of PO adjustments?
- How can the Town cut down on quantity of invoices to process?



- Can employee reimbursements be processed as allowance through payroll?
- Can p-cards be used more extensively for small purchases?
- How can the Town cut down on waiting time when there are issues during the process?

F. Other Considerations

In addition to processes defined above, GFOA noted a few other observations with the purchasing/accounts payable function for the Town.

GFOA Observations

- The Town relies heavily on email for the entire process. GFOA believes this is extremely inefficient and leads to significant processing delays.
- The Town has many other systems that are redundant or overlap
 - CCF
 - LaserFiche
 - NaviLine
 - Department tracking (excel, paper)
 - DocuSign
- Each department has its own tracking systems.
- Clear expectations for the process have not been set. With the exception for the Town's rule that invoices paid for the week must be submitted by the close of business on the prior Friday, there is not a clear expectation with how quickly tasks will be completed. For example, there is not set service standard for:
 - PO creation
 - Vendor registration
 - How long a department has to approve invoices
- The Town has not conducted training on AP policies. However, the Town does not really have standardized AP policies or processes to conduct training on.

III. Recommendations

This section of the report provides recommendations for the Town's review. All recommendations are formatted to answer the project's five primary questions and propose strategies that can be helpful to address short-term, mid-term, and long-term issues.

- 1) How can we pay bills on time?
- 2) How can we streamline the AP process to be more efficient?
- 3) How can we improve communications between Town departments?
- 4) How can we better work together?
- 5) How can we create process to meet challenges in the future?

GFOA recommendations are based on our best practice knowledge, results from discussion with Town staff, knowledge of systems and successful examples in other similar municipalities. Recommendations are intended to be discussed by Town staff and prioritized. GFOA will be available to help explain any recommendation or provide additional guidance on implementation (This is the next step in project).

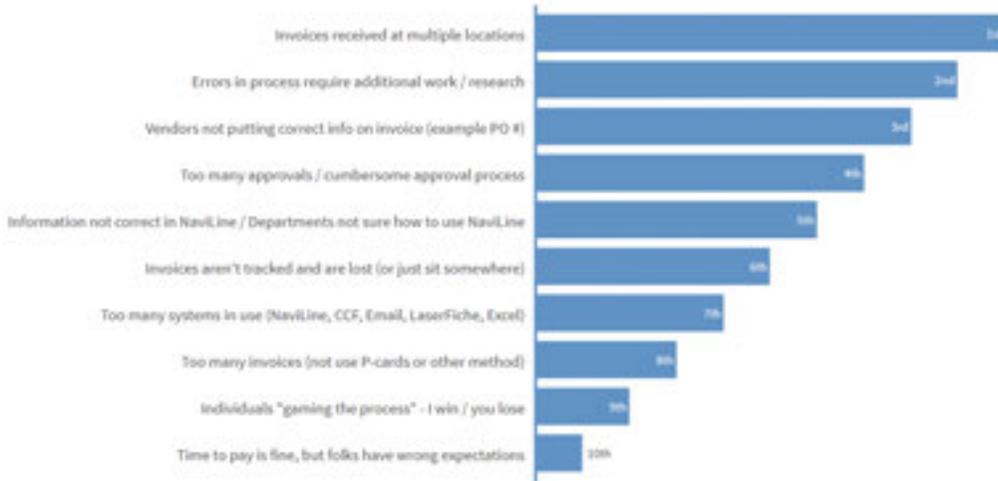
Owning Our Piece: Improving Bill Paying



A. How can we pay bills on time?

The most important outcome for the Town to improve with this project is paying vendors correctly and on time. GFOA’s analysis throughout this project was focused on trying to determine the root cause of why bills were not being paid on time. By going through the current process and hearing stories and examples from various staff, GFOA was able to identify a number of factors that lead to issues with the process and ultimately result in late payments. To get feedback from staff, GFOA asked Town staff in attendance at the workshop to rank ten pre-selected factors as to which were most important in bills being paid late. The graph below identifies the results of the poll with the 1st rank being the largest factor. Staff felt that the leading factors were that 1) invoices were received at multiple locations and that delayed processing, 2) errors at various points in the process required significant re-work, and 3) vendors did not provide the correct information with their invoice requiring staff to spend additional time processing.

Results from Poll: What are leading factors for invoices to be paid late?



Based on GFOA’s assessment and outside perspective, the leading factors that result in late payments can be summarized into a limited number of categories. With each category, GFOA then recommends a strategy for improving the timing of payments. Note, GFOA’s ranking of factors is slightly different than the Town staff ranking, but consistent with all major factors.

- 1) **There is not a standard process.** It is true that the Town receives invoices in multiple locations, but that is not the sole issue. Once invoices are received, there lacks a standard process for departments to review, sign off, and forward invoices for approval. Invoices are also not tracked throughout the process. As a result it is difficult to manage the time to pay.

Recommendation 1) Stop using email to forward invoices. The Town has (or could easily acquire) simple document imaging and workflow tools that would assist with capturing invoices when there are received, gathering approvals (potentially), and forwarding the invoice to accounts payable for payment. In



addition, with basic tracking, the process would be transparent to stakeholders and eliminate the need for follow up calls/emails. It would also work to hold all accountable to deadlines by providing a level of transparency to the process that is not present today.

Recommendation 2) Create Standard process for invoice intake. The Town should be clear on where vendors send invoices. The Town's purchase order requests that invoices be sent to AP – although it is debatable whether or not this information on the purchase order is clear and that vendors actually receive this message. However, departments need to approve the invoice first so the fact that invoices come to AP requires an initial step to re-distribute the invoice to the department. Also, for purchase of good/services without a PO, the invoice likely goes directly to the department. In addition, Town staff indicated that invoices coming into AP without appropriate PO numbers or contact information provide additional burden to research. GFOA recommends that the Town request that all invoices be sent directly to departments for approval. Upon receipt, departments record in a Town-wide system the receipt of the invoice. If, for some reason, invoices would come in to finance, or at a different department, the receiver could also record the invoice receipt for tracking purposes. With invoices stored and tracked across the entire Town, it should be easier to identify areas for delay (or departments that delay in processing). Having a central repository would also assist with helping to identify “lost” invoices that can not be easily connected to a specific department. Posting the invoice to a common place, would allow for departments to “claim” their own invoices. Implementing this strategy will save time removing a step in the process where invoices go from AP to the departments.

Recommendation 3) Document Invoice Receipt. The critical part of the previous recommendation is that ALL points of invoice receipt MUST record their invoices upon receipt. This is the only way for the Town to accurately track and manage the process. If/When the Town moves to a modern ERP system, this will be a standard part of any process. In the short-term, GFOA can recommend potential options for meeting this requirement if any of the Town's existing systems (such as LaserFiche) cannot be used.

- 2) The Town “over” processes invoices.** One of the eight commonly cited examples of “waste” that a Lean Process Improvement methodology works to reduce is “over processing.” Within the Town of Cary's accounts payable process, this exhibits itself as multiple overlapping systems, excessive approvals (including multiple approvals by the same person), and multiple approvers that are providing a check on the same thing. This over processing leads to delays, inefficiencies and ultimately late payments. Obviously, invoices need an approval process. The approval process must also consider the potential risks that exist and provide controls that safeguard funds and ensure proper adherence to Town policies. However, with an excessive number of approvals, it still does not mean that the Town has the right approvals. Also, because of the excessive effort to approve the focus for approvers can be easily transferred from reviewing and properly signing off to simply

Recommendation 4) Reduce the number of unnecessary approvals. By clearly understanding the purpose of each approval, the Town can reduce effort within the accounts payable process without sacrificing any valuable oversight and control. Without understand the purpose of each approval, governments have the tendency to “over approve” where approvers at multiple levels are performing redundant tasks. For example, without clarify of role in the Town's accounts payable process, multiple people are performing the same task. While one could argue that this is helpful to reduce errors, in reality with multiple people checking for the same thing, no one is truly accountable and can lead to more errors.



For example, who is responsible for checking to ensure budget availability, compliance with purchasing process, consistency with PO, or for providing operational approval? The Town should clearly identify who is accountable for which authorization. After roles are clarified, the Town can also determine if any of the approvals are redundant. If the individual does not have the ability to reject or has not ever rejected a transaction, he or she is probably not a true approver. Similarly, if someone is performing the approval to “double-check” the first approver, either the first approver is not a true approver or the second reviewer is redundant. Reducing the number of approvers should also reduce the amount of “waiting time” in the process.

Recommendation 5) Stop Receiving Process. After a good/service that was purchased on a PO is received by the Town, departmental staff must log in to NaviLine and acknowledge receipt of the item. This sends a notification to finance that the item has been received. When the invoice arrives, departmental staff must sign the invoice acknowledging receipt of the item and indicate that the invoice is correct. Departments therefore acknowledge receipt of the item or service twice. In addition, finance staff must match the receiving notification that comes through NaviLine to the signed invoice that comes through email adding additional work to the process. GFOA recommends that the departments sign the invoice to acknowledge receipt of the item and to indicate the invoice is correct and ready to be paid. Performing this check at the same time would make the receipting process in NaviLine unnecessary.

Recommendation 6) Eliminate CCF. In addition to eliminating the receiving process, the Town should consolidate its use of the CCF and LaserFiche. LaserFiche has the capability to store both the imaged contract and to manage workflow approvals for key stakeholders to sign off. Removing CCF from the process would eliminate a system and eliminate several redundant approval processes. Currently, CCF does not seem to add any value, but requires an additional redundant approval.

Recommendation 7) Create matching tolerance level. Another simple way to reduce transactional volume is to create an exception process for “unmatched invoices.” Currently, for any invoice that exceeds the value of the purchase order, the Town must process a change order to the purchase order. Obviously, this is a control to not allow payments in excess of the purchasing approval amount. However, there are a number of common exceptions. For example, the Town may not have included shipping or freight costs in the original purchase order. To pay the invoice with the included shipping or freight, the Town needs to go through the full purchase request process, issue (or go through motions to issue) a revised purchase order, and then match the revised purchase order to the invoice. During this time, the invoice payment gets delayed. GFOA recommends creating a tolerance policy where if an invoice exceeds the purchase order amount because of shipping or freight, the invoice is considered to match and can be paid with additional non-value added approvals or purchase order adjustments.

- 3) The Town processes too many invoices.** The Town’s processes for accounts payable are manual, inefficient, and redundant, but the Town also spends time processing unnecessary invoices. By reducing the quantity of invoices to pay, the Town will reduce pressure on staff and allow focus to shift towards paying “normal” invoices. In addition, with each additional invoice it creates opportunities for errors and variations, to the process.



Recommendation 8) Eliminate direct pays and encourage p-card use. Using the accounts payable process regularly for small dollar purchases is inefficient. Staff must spend the same amount of time processing an invoice for \$10 as for \$10,000. As a result, using direct pays for small dollar purchases greatly contributes to the volume of invoices and is a cause for the Town not making timely payments on all invoices. GFOA understands that some departments can process over 100 direct pays in a week and that direct pays can make up approximately 50% of all payments. Many other municipalities have turned to p-cards to reduce the number of transactions. Generally, p-cards are preferred due to the ability to track the transaction online, account using the p-card system, and eliminate unnecessary accounts payable transactions. Some vendors will even prefer p-cards because even though they pay processing fees, they also are guaranteed to be paid in a timely manner. GFOA understands that not all vendors accept credit card payments and there will always be specific situations that require a direct payment. However, these should be the exception rather than the standard process.

Recommendation 9) Process All uniform allowances through payroll. In interviews with department staff, many mentioned the large number of accounts payable checks made for uniform/boot reimbursements. The Town's policy is that employees have up to a certain amount of money provided to purchase work uniforms (boots). Employees almost always purchase boots over the set amount (so almost all employees' reimbursement equals the maximum amount). Each year, Town staff processes, enters, and produces payment for hundreds of separate reimbursements. Some departments even indicated that payments for uniform allowance can represent 75% or even 90% of all payments from the department. For other municipalities, this type of transaction is routinely done through payroll and processed automatically as a uniform allowance. During the identified pay period (usually once per year or a prorated amount based on hire date if hired during the middle of the year) the uniform allowance amount is added to an employees' check. GFOA recommends that the Town stop reimbursing for cost of boots and start paying all employees a set allowance through payroll at a pre-determined time throughout the year. This would significantly reduce the number of payments to process.

- 4) **Expectations and guidelines are not communicated.** If vendors do not include the purchase order number or department contact on an invoice, staff in AP can have a difficult time routing the invoice for approval. This creates delays not only to that specific invoice, but creates a chain reaction as it also takes time away from processing other invoices.

Recommendation 10) Clearly communication requirements to vendors. GFOA understands that the Town's contracts and purchase orders contain language that requests that vendors place the purchase order number on all invoices. The Town should make certain that this information is clearly communicated and understood. It is probably not a good assumption that all vendors will read through the detailed terms of all purchase orders when generating the invoices. The Town should make sure that this information is clearly communicated, obvious, and prominently located on documents coming from the Town.

The Town should also ensure that communications from the Town are consistent. With the vendor registration process, the official directions from the Town instruct vendors to submit their materials back to accounts payable. However, many departments instruct vendors to submit their registration materials to the departments which are then forwarded to AP. If instructions are inconsistently followed when convenient for the Town, it is easy to see how vendors may not follow all directions at times as well.

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Recommendation 11) Clearly communicate consequences for failure to follow the set process. The Town’s contract language contains the message that all invoices should be submitted to the accounts payable department and contain the purchase order number. It also “warns” that payments *could be* delayed if this does not occur. However, this creates an ambiguous warning that is obviously not understood by vendors. If it is essential for the Town to have purchase order number on an invoice, then the policy should be to return the invoice to the vendor and ask for revised invoice with purchase order number.

B. How can we streamline the AP process to be more efficient?

In addition to simply paying bills on time, the Town will need to streamline the accounts payable process. In addition to the recommendations listed in the section above, GFOA has identified a few strategies for improving the efficiency of the accounts payable process.

Recommendation 12) Balance workload between accounts payable staff. The Town’s current method of dividing the workload for processing invoices is to split by vendor name. One individual is responsible for payments made to vendors with names beginning with A-M. The other individual responsible for processing invoices is responsible for vendors with names beginning with N-Z. This method for splitting workload hurts the efficiency and standardization of the process while not really accomplishing any valuable objectives. GFOA understands that the rationale for this split was so that accounts payable staff could become familiar with certain vendors. However, the primary contact for the Town with the vendor is really with the department or with purchasing. Having accounts payable established as a further contact is not necessary. In addition, accounts payable staff really is not required to become familiar with the vendor to pay the invoice. However, splitting workload this way is not an equitable split and can create very different payment timelines depending on the current workload of the specific staff person assigned to the vendor. Instead of splitting by last name, GFOA recommends that the Town create a common queue for all invoices and have accounts payable staff work together to process payment. This will create better consistency across all payments.

Recommendation 13) Standardize and simplify process. In making the procure-to-pay process more efficient, the Town will need to both standardize and simplify the process. The table and process considerations below provides a summary of each step in a standardized process, the recommended department that has primary approval or responsibility for that component, and considerations for implementation.

Process	Purpose	Responsibility
Purchase Requisition	Provide authorization to purchase Check budget / Pre-encumber funds	Department Department
Purchase Order	Ensure compliance with purchasing policy Place order	Purchasing Purchasing
Receipt	Verify good/service is received	Department
Process Invoice	Verify invoice is correct	Department
Pay Invoice	Final review of invoice Pay invoice	Finance/AP



Streamlining the purchasing and accounts payable process requires that all steps in the process work together and in proper sequence. GFOA recommends the following considerations for each to contribute to a streamlined process.

- **Purchase Requisition.** GFOA recommends that the Town enter all purchases into the system at the beginning of the process. Purchase requisitions should be entered prior to any RFP, contract, or involvement from procurement. This would be a change as currently, the Town enters the requisition after the RFP or in some cases after the purchase has been made. This is the only way to track approvals, properly reserve funding, and perform necessary budget checks. It also forces approval for the purchase before the purchase. Departments would be responsible for the purchase requisition. If quotes were obtained, departments could enter the quotes into the requisition. At this stage, vendors could be “recommended” by a department, but the sourcing decision would be made consistent to the Town’s purchasing policy and depend on if an item is under contract or would require an RFP/bid. The biggest benefit of this recommendation is that all purchases would be treated the same. To initiate any purchase, departments would use a requisition. If requisitions are fully approved, it can move to the next step in the process.
- **Purchase Order.** Once requisitions are approved, the purchasing department would be involved to review for compliance with the Town’s procurement policy. For smaller dollar items, the PO would be created without any further processing or process steps. For larger dollar items, purchasing could verify quotes, work with the department to issue a bid or RFP, identify if the item is under contract, or pursue some other sourcing strategy. Because the requisition is in the system, the Town could track status and have visibility into the procurements in process. When complete, purchasing would finalize, confirm or add the vendor, and then create the purchase order. The purchase order is then sent to the vendor to place the order.
- **Receipt of Goods/Services.** The receiving process verifies that the ordered items have been received. For organizations that use a receiving process, completion by the departments indicates that the good/services were in fact received and approved to pay. For this to be a value added step in the process, it assumes that different people are signing off on the receipt vs. the invoice. If the same people sign off on both, as is the case with the Town, the process is redundant.
- **Process Invoice.** Approving the invoice signals that the invoice is ready to pay because the information on the invoice is correct and ready to pay. For the Town approving the invoice indicates both that goods/services have been received and the invoice pricing is correct. GFOA recommends that this step be combined with the receiving step so that both approvals (receive goods/service and invoice approval) occur at the same time using the same tool (signing the invoice). This would effectively change the Town’s 3-way match to a 2-way match. In addition, because invoices will be approved in the department, GFOA recommends that invoices be sent directly to the departments. This would remove issues related to finance/AP not knowing where to route invoices after it is received. It also takes away a non-value added move where invoices are received centrally only to be sent out to departments. Currently, GFOA recommends that invoices be signed and forwarded to finance/AP for payment. If the Town were to get a system to automate the process, departments would be responsible for entering the invoice into the system and the processing would occur electronically.
- **Pay Invoice.** Providing a final review of the invoice to ensure there are not any issues with tax, remittance addresses, or other details not generally connected to the purchase or receipt of items



occurs prior to payment. The invoice is then paid. GFOA's best practice states that governments pay vendors electronically.

C. How can we improve communications between Town departments?

Improving communications between Town departments is not something that will occur right away and is not a one-time event. GFOA has worked with other organizations to develop post-implementation support plans for either system implementations or large-scale process or policy change implementations. In general, the same considerations apply to both. Because many staff are new or may be unfamiliar with all requirements, process steps, or expectations, GFOA recommends the following strategies.

Recommendation 14) Regular training. GFOA recommends that the Town establish a regular training series to update staff on procurement and finance/AP policies. Not only is this important for new staff, but can serve as a refresher for existing staff that may not be familiar with standard policy, those who changed positions recently, or those who may have learned incorrectly the first time. It is important with any training series involving stakeholders from multiple department however, that the training not be one-sided. All stakeholders should have input on the training agenda. The purchasing and finance/AP staff should also dedicate time to learn from departments on the departments' part of the process and what is required from their perspective to function efficiently and support the Town's operations. For example, if the department were administering a project or grant, it would be important to communicate that information to others in the process.

The Town should also realize that training is an investment. This will take resources and time. The hope is that resources required for a proactive training investment will be less than the resources consumed correcting issues and dealing with errors. However, this may take time. If the training effort is not focused or supported by the entire organization, the Town faces the risk of spending resources and time on the training and not getting desired outcomes – so errors continue.

Recommendation 15) Quick guides and FAQ lists. Outside of interactive training events, the Town should work to create a short series of "quick guides" and "FAQ lists" that provide a short refresher or answers to common challenges. Many organizations will communicate through email or memo about key changes in process or tips for how to correct deficiencies. However, the email is old after it is sent and rarely can be used as an ongoing reference document. Having a short ongoing reference document where critical information is displayed concisely and in one spot is helpful to maintain process consistency and voice errors.

D. How can we better work together?

Working together requires communication and setting clear expectations about rules and expectations. It also requires that the Town communicate to vendors using a consistent message.



Recommendation 16) Clarify roles in managing vendor relationship. It is important for the Town to have a healthy working relationship with its vendors and that the relationship not be unnecessarily confusing. Maintaining this relationship over time also requires that the Town set up contact points and ensure that the Town is communicating consistently with vendors. GFOA recommends that the Town follow the following roles and assign certain responsibilities to departments to maintain that relationship.

- **Vendor Registration.** GFOA recommends that departments be the point of contact for vendor registration and be responsible for forwarding all necessary information to finance/AP for vendor registration. Currently there is a disconnect in the Town's process. The department identifies the need for a new vendor, sends the new vendor packet, but this is removed from the process as it instructs vendors to send it back to AP. This prevents the department from following up and adds additional contact points for the vendor that can be confusing.
- **Purchase Orders.** GFOA recommends that all purchase orders come directly from the purchase department. Departments would be responsible for managing overall supplier relationship, but official orders for the Town would come from purchasing. As the Town moves to make all purchases through either a p-card or purchase order, this will remove unnecessary variation.

Recommendation 17) Create service level agreements. GFOA recommends that the Town establish service level agreements between departments. Service level agreements are simple agreements between departments that define expectations. With an organization such as the Town, where departments must depend on each other for successful delivery of service, these simple agreements can help improve communication and hold departments accountable.

A service level agreement is a contract between provider department and customer department that defines the minimum standards for provision of that service. Service level agreements also clearly identify the expectations and roles on both parties. The most important part of a services level agreement (and what GFOA sees as the biggest improvement going forward) is that the provider (often finance) and the customer (often the department) will agree on expectations. This makes it much easier to hold both departments accountable for both timeline and quality (number of errors or missing information).

If expectations are not met (by either provider or customer) a service level agreement also provides a consequence or strategy for dealing with the issue. Having an escalation path identified can remedy the situation quickly and hopefully prevent it from occurring in the future. To develop a service level agreement both the provider and customer must discuss expectations and agree together on acceptance performance (and how to measure it). Effective service levels should:

- Be reasonable and realistic. Service level agreements should identify expected and agreed upon service levels (not future goals)
- Allow for measurement. Service levels need to be monitored and should be monitored with clear and well understood metrics / performance measures.
- Reviewed periodically and refined if necessary

The Town already has part of an informal service level in place now with the understanding that invoices submitted to the Town by the close of business on Friday are paid the following week. Invoices not submitted by this deadline are not. However, the "agreement" does not specific minimum levels of quality,

Owning Our Piece: Improving Bill Paying



required information, escalation paths, etc. Below is a sample template for creating of simple service level agreement.

NOTE: This is just an example, it is not intended to be the actual terms in suggested SLA

Customer:	Department X
Provider:	Finance
Service:	Pay Invoices
Service Description	After departments approve invoices for both match to purchase order and receipt of goods/services, the finance/AP department will process the invoices and pay vendors.
Provider Role:	<ul style="list-style-type: none"> • Provide final review of invoices • Pay invoices • Notify departments of vendor payment
Customer Role:	<ul style="list-style-type: none"> • Provide all information as required by finance/AP
Minimum Standards	<ul style="list-style-type: none"> • All invoices turned in by 2 PM on Friday will be processed for payment by the following Wednesday. • Departments must indicate the PO# and provide all necessary signatures. If information is missing, the invoice will be returned to the department. • Changes to vendor information (address, contact, etc.) need to be highlighted by the department
Exceptions	<ul style="list-style-type: none"> • TBD

E. How can we create process to meet challenges in the future?

It is inevitable that at some point in the future, if the Town wants a long-term solution to improve process and truly solve challenges related to the accounts payable process, it will need a new/modern ERP system. It is simply impossible to accomplish an efficient process, “best practice” focused process that is similar to what other leading municipalities have with the antiquated and limited tools currently in place. Recommendations in this report will make the Town more efficient and GFOA believes will allow the Town to pay on-time, but all recommendations should be considered short-term solutions. The Town’s current NaviLine system as it was configured, and how the product has evolved since then, does not fully support a modern accounts payable function consistent with those available from leading ERP providers in the market today. A new system, however, will not solve the Town’s issues by itself. GFOA has assisted hundreds of other governments with transition to a new ERP system. One major mistake many make is assuming the system will solve their issues. Based on that experience, we strongly recommend that governments work to improve business processes BEFORE implementing a new system.

Recommendation 18) Start planning for ERP system replacement. A new ERP system provides the opportunity for a foundation that integrates data, automates processes, and provides system functionality to perform many basic controls. Prior to any project, governments need to engage in a comprehensive planning and readiness phase to ensure the following are met:

- 1) **Define goals for the project.** The Town will need to clearly identify and communicate what it hopes to accomplish with the project. This step generally relates to business process improvements,



customer service enhancements, or solutions to common challenges (like paying vendors on-time) that the project can solve. Effectively, this communicates the primary benefit for the Town's investment.

- 2) **Define project scope.** A project must contain a manageable scope. Clearly defining what is part of the project and what is not will help communicate expectations to stakeholders.
- 3) **Determine governance structure.** How governments make decisions in a project is critical. Too many people involved and decision-making can be slow. Too few and the decisions are not transparent and the organization is likely to face change management issues.
- 4) **Identify key roles and staffing needs.** It is important to clarify roles so that people involved in the project understand their role and the role of others. Once roles are defined, making sure that the Town provides sufficient staffing resources to those roles is key. Projects that have the wrong resources assigned or resources that don't have availability will not recover.
- 5) **Document process requirements.** The key to any system procurement and system implementation is having clear requirements. GFOA strongly recommends that requirements be documented after going through a business process improvement process (requirements that identify how your legacy system works have no value). To do this, GFOA typically performs a similar process to what was done for the Town with procurement and accounts payable for all processes under scope. This allows you to set requirements for the organization you want to become. The outcomes of that process improvement work are then included in the contract with any vendor to define scope.
- 6) **Identify systems for conversion.** One of the big returns on investment from a new system is eliminating the redundant effort that goes into maintaining shadow system. Throughout GFOA's interviews with Town staff, it was clear that the Town relies on a significant number of shadow systems (excel spreadsheets, paper filing methods, multiple systems – NaviLine, LaserFiche, CCF, DocuSign) to manage the process. Organizations that want to reduce the number of systems need to plan for this first by identifying all systems and next by working on a strategy to convert each to the main ERP system.
- 7) **Document expectations for interfaces.** ERP systems will not solve all needs across the organization and the organization will need ERP data to communicate with other systems (or bring other data into the ERP system. As part of readiness activities, GFOA recommends that organizations document and define key interfaces.
- 8) **Develop project budget.** ERP systems are an investment into the future foundation of an organization. When done well, they are not cheap (and when not done well, they have the potential to really be expensive in the long-term). Any organization considering an ERP project needs to be honest with itself about project costs (both external and internal) and start planning.
- 9) **Establish communication function.** ERP projects involve the entire organization and rely on the entire organization to work together. Communicating expectations, schedules, changes, and requirements is important. It is never too early to start communicating about a large project like this.
- 10) **Recruit staff to be involved from across the organization.** No one department or function owns an ERP system. While the governance structure will make primary decisions about the project, each department will need to be involved. ERP projects also can be great opportunities to develop staff. GFOA recommends that the Town begin looking to identify key staff that can serve on business process improvement teams, take lead roles in the project, and otherwise be important components in the project to define the Town's administrative functions for the next 10-15 years.



Recommendation 19) Consider strategic role of procurement. As a long-term strategy for improving the procurement and accounts payable process, the Town should evaluate the role of both functions relative to each other and the how each can bring value to the Town. With this shift, the functions will change to be less transactional and more policy driven and strategic. With the current process, purchasing’s primary role is to process transactions and in many cases works after the fact to simply complete documentation on a purchase that has already occurred. GFOA recommends that the Town consider having a standardized purchasing process and then utilizing purchasing with managing the sourcing decision where appropriate by the Town’s policy. Purchasing can then focus on securing contracts for frequently purchased items, implementing punch-out functionality for regular items/vendors, better utilize state or cooperative contracts, centralizing the Town’s contract management process, and working to implement goals of the procurement policy.

IV. Appendix

A. Current Process Maps

- Purchase Requisitions
- Purchase Orders
- Vendor Registration
- Contract Management
- Invoice Processing
- Invoice Processing (Request for Payment)

B. Future Process Map

- Procure-to-Pay Overview