

Existing Single Invoice Process

for P.O.-Related Invoices

Process Document

09/30/2003

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Purpose

The purpose of this document is to acquaint the AP imaging/workflow solution vendor with the single invoice entry process at Stock Building Supply® (hereafter referred to as SBS or Stock) in order to facilitate the design, development, and implementation of a new automated Accounts Payable system.

It can also be used to assist SBS accounting managers in redefining their AP workflow process and communicating their existing AP process to additional outside parties, as needed.

Scope

This document explains the step-by-step process of single invoice entry, as it is used by AP Operators, Team Leaders, and Reconciliation Team members in the AP Department at the Stock corporate office. The phrase “single invoice entry” refers to P.O.-related invoices that are sent from vendors directly to the Stock corporate office for payment.



Note: When variance invoices are discovered, employees at local stores who handle invoices are also involved; they work with certain members of the AP Department to resolve variances before the AP Department processes them for payment.

History

SBS stores were once independently owned and operated. Over time, they were acquired by Stock, and their accounting operations became consolidated under one system. However, each store continued to conduct business with its own vendors as it had in the past, receiving and paying invoices independently. In this way, all stores used the batch invoice entry system described in the *Definitions* section at the end of this document.

Each store is being converted to a system in which its vendors send invoices directly to the corporate office in Raleigh, as described in the single invoice entry definition (see the *Definitions* section). Gradually, stores have been brought into this new process; however, at this point in time, 75% of the vendor invoices continue to be processed at the stores and then sent to the corporate or regional office in batches for final approval and archiving. The conversion will be completed by March, 2004.



Note: One of the goals of the new AP system is to phase out the remote batch invoice entry process.

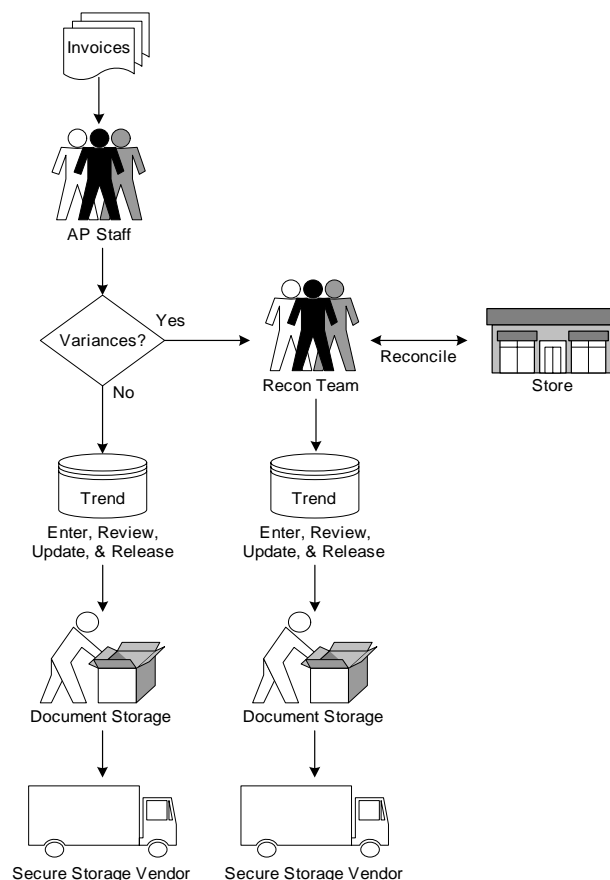
Overview

This document describes the steps that Accounts Payable staff members perform to process P.O.-related invoices that are sent from vendors directly to the Stock corporate headquarters in Raleigh.

When invoices arrive at the Raleigh office, members of the AP staff confirm that the invoices are correct and acceptable for payment, enter the invoices into NxTrend™ (hereafter referred to as Trend), review them for accuracy, release them for payment, and give the paid invoices and related paperwork to staff members within the department to be boxed and stored. The boxes are picked up by a secure-storage vendor and archived. Details about these activities are described in the section *Invoices Without Variances*.

When AP members detect variances, they route the variance invoices (also called “exception invoices”) to members of the Reconciliation Team (Recon Team), a group within the AP Department that works with people at the individual stores to correct variances. After variances are corrected, Recon team members enter the invoices into Trend, release them, and route the paperwork to be boxed and stored. They perform these steps the same way that other AP staff members do when processing invoices without variances. Details about these activities are described in the section *Invoices With Variances*.

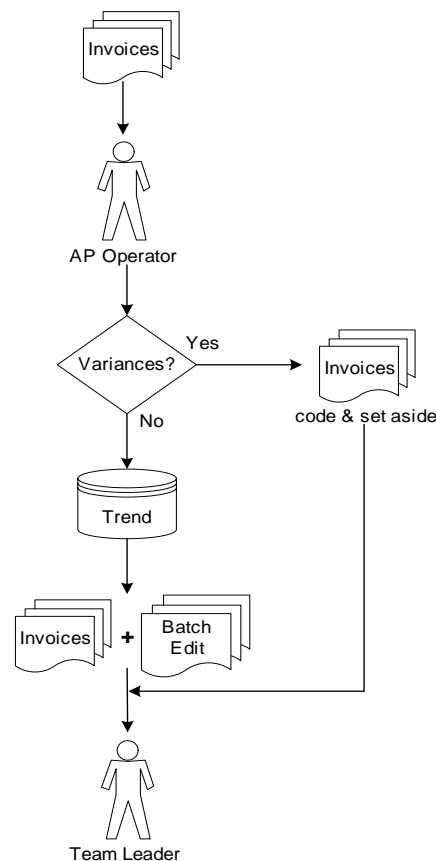
A summary of the single invoice entry process is illustrated in the following diagram:



Invoices Without Variances

Step 1: Invoice Entry

➤ Function: Key individual invoices into Trend.



1.1 An AP Operator receives vendor invoices from the mailroom.



Note: There is no specific rule that dictates which vendors are assigned to which AP Operators. Some vendors are assigned to AP Operators alphabetically; others may be assigned according to size and frequency of daily invoices; some are assigned to AP Operators who know how to handle special requirements, such as shipping modalities, etc. Currently, mailroom staff members know which vendor is assigned to which AP Operator, regardless of the reasons.

1.2 The AP Operator examines each invoice to determine whether it is payable or in variance. He determines this by comparing the paper invoice to the corresponding receiver details in Trend (information recorded when products or services are received at the warehouse), based on predetermined criteria:

- ◆ The vendor terms, pricing, and other data on the invoice match the data in the corresponding receiver.
- ◆ The invoice amount (total) is within the approved tolerance of the amount in the receiver up to a specified dollar amount.
- ◆ The difference between the invoice total and the total in the receiver is less than or equal to the minimum accepted tolerance, regardless of the percentage.
- ◆ The products or services in the invoice match those in the receiver, and the products or services have been posted as received.

The AP Operator also checks to make sure that no sales tax appears on the invoice. If sales tax appears on a P.O.-related invoice, it is considered to be in variance, and the sales tax must be removed.

1.3 After conducting this research, the AP Operator writes codes on the variance invoices that he finds. These codes include the vendor number, store number, variance amount, percentage of variance in relation to the invoice total, the reason for the variance, and any relevant comments. He then sets the variance invoices aside to be checked by his Team Leader.

1.4 The AP Operator keys the invoices that do not contain any variances into Trend, grouping them into batches of 30 invoices.



Note: Invoices are not committed to Trend at this point; they remain in a pending state until they are updated. Upon update, Trend creates a summary of each batch, called a “journal” (see *Step 3: Journal Update* in this section).

1.5 For each batch of 30 invoices, the AP Operator prints a batch edit sheet in Trend, which lists each invoice in the batch. He attaches each batch edit sheet to the corresponding batch of invoices.

1.6 After entering multiple batches into the system, the AP Operator collects the invoices and corresponding batch edit sheets into one single group.

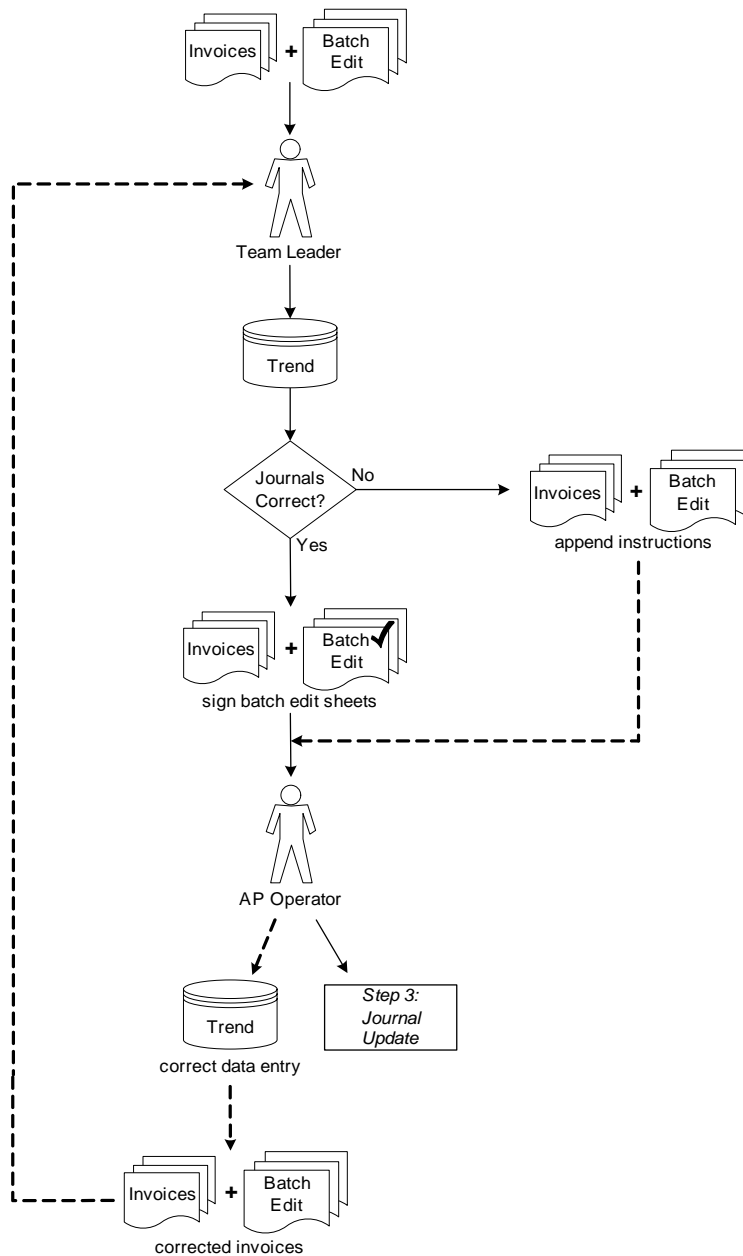
1.7 The AP Operator gives the batches and corresponding invoices, as well as any variance invoices he may have coded and set aside to his Team Leader for review and approval.

Step 2: Journal Review

➤ **Function: Review and approve invoice batches within a group of journals.**




Note: A Team Leader is required for this function.



2.1 The Team Leader receives a group of journals from an AP Operator, containing the invoice batches and the corresponding batch edit sheets.

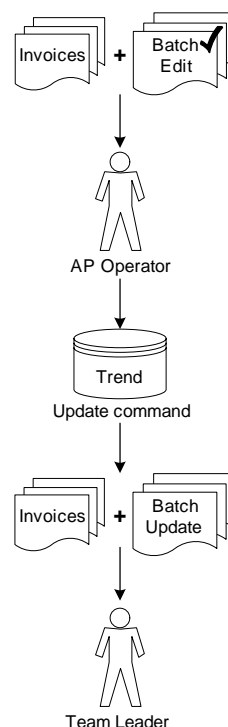


Note: If the AP Operator discovered variances during step 1.2 above, the Team Leader also receives a group of potential variance invoices. For a description of how the Team Leader handles those invoices, see *Step 1: Variance Review* in the section *Invoices With Variances*, starting with step 1.5.

- 2.2** The Team Leader inspects each batch edit sheet and corresponding invoices, performing appropriate research in Trend to ensure that the invoices within each batch have been processed correctly.
- 2.3** If all the invoices in a batch are correct, the Team Leader approves the journal by signing the corresponding batch edit sheet. If any of the invoices in a batch are incorrect, the corresponding batch edit sheet is not signed, and the Team Leader gives the AP Operator instructions regarding how he can correct the invoices.
-  **Note:** The signed batch edit sheets are required in order to provide an audit trail confirming the approval of the corresponding batches.
- 2.4** The Team Leader returns all the batches to the AP Operator, along with signed batch edit sheets and/or instructions for correcting errors.
- 2.5** If any of the invoices contain errors, the AP Operator corrects them per the Team Leader's instructions and returns them to the Team Leader for re-evaluation. The AP Operator updates the approved journals in Trend (see *Step 3: Journal Update* below).

Step 3: Journal Update


- **Function: Update approved journals in Trend.**



- 3.1** The AP Operator receives approved batches of invoices from his Team Leader.
- 3.2** Using Trend, the AP Operator executes the Update command for each approved journal. This automatically updates all the invoices in each journal, committing them to the database.

When the invoices are updated, Trend creates a summary of each batch, called a “journal.” Trend assigns a unique ID number to each journal and tracks which invoices are associated with each journal.


- 3.3** For each updated batch, the AP Operator prints a batch update sheet, which lists each updated invoice in the batch. He attaches each batch update sheet to the corresponding batch of updated invoices.

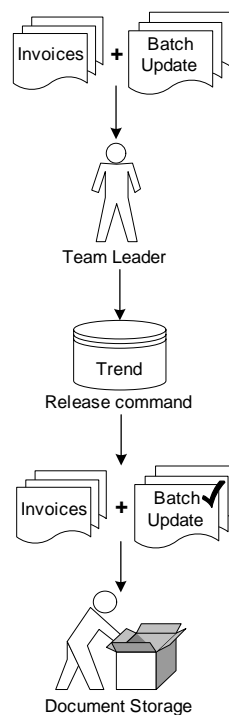
 **Note:** The batch update sheets replace the batch edit sheets, which are discarded.

- 3.4** The AP Operator returns the group of updated journals to the Team Leader to be released.

Step 4: Journal Release

- **Function: Release updated journals for payment.**

 **Note:** A Team Leader is required for this function.



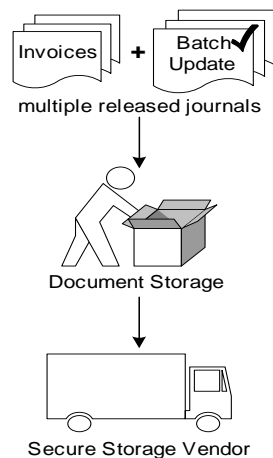
- 4.1** The Team Leader receives updated journals from the AP Operator.
- 4.2** Using Trend, the Team Leader executes the Release command for each updated journal and signs each batch update sheet. This automatically releases all the invoices in each journal for payment and enables a check to be printed for each invoice in the batch on its respective due date.

**Notes:**

- ◆ The two steps *Journal Update* and *Journal Release* ensure that two separate employees must act to release invoices for payment. Trend tracks these actions for auditing purposes. Update and release actions are verified by the Team Leaders' signatures on the batch update sheets of each batch.
 - ◆ Once checks are enabled for payment, they are created through a 3-step process in Trend; then a specified group of AP staff members use third-party software to print the checks when they are due.
- 4.3** The Team Leader gives released journals to the mailroom associates who handle invoice document storage (see *Step 5: Journal Storage* below).

Step 5: Journal Storage

- **Function: Journals are boxed and sent to secure off-site storage.**




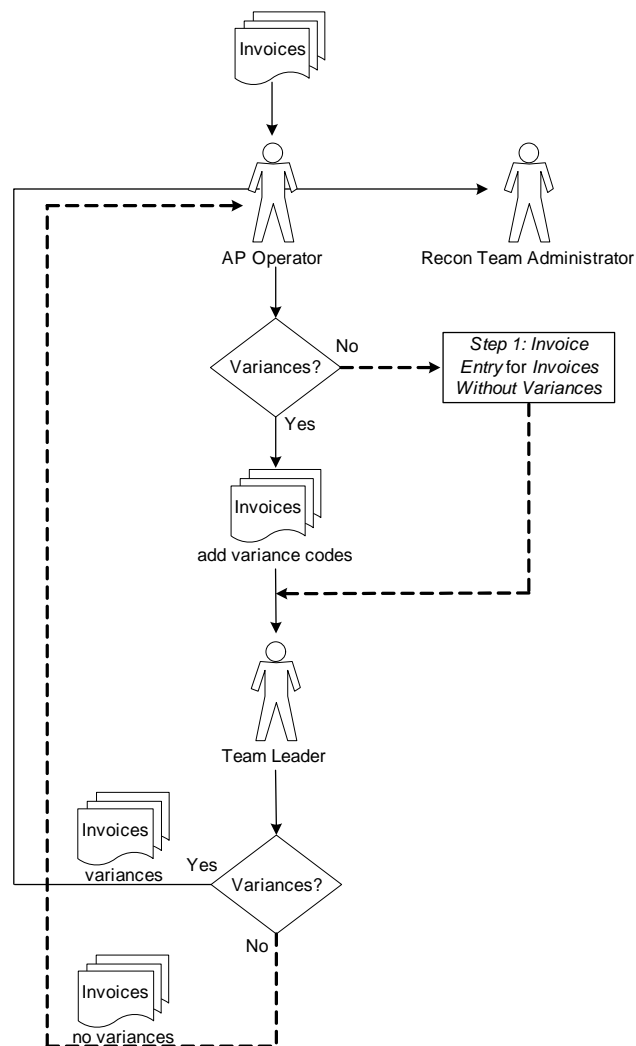
- 5.1** The mailroom associates who handle invoice document storage receive released journals from Team Leaders.
- 5.2** The document storage handlers box the journals for storage.
- 5.3** Iron Mountain picks up the boxes and stores them off site in secured areas for SBS.

Invoices With Variances

Step 1: Variance Review

- **Function: Variance invoices are reviewed to determine if a problem actually exists; variance invoices are routed to the Reconciliation Team.**

 **Note:** A Team Leader is required for this function.




- 1.1** An AP Operator receives vendor invoices from the mailroom.
- 1.2** The AP Operator examines each invoice to determine whether it is payable or in variance. He determines this by comparing the paper invoice to the corresponding receiver details in Trend

(information recorded when products or services are received at the warehouse), based on predetermined criteria:

- ◆ The vendor terms, pricing, and other data on the invoice match the data in the corresponding receiver.
- ◆ The invoice amount (total) is within the approved tolerance of the amount in the receiver up to a specified dollar amount.
- ◆ The difference between the invoice total and the total in the receiver is less than or equal to the minimum accepted tolerance, regardless of the percentage.
- ◆ The products or services in the invoice match those in the receiver, and the products or services have been posted as received.

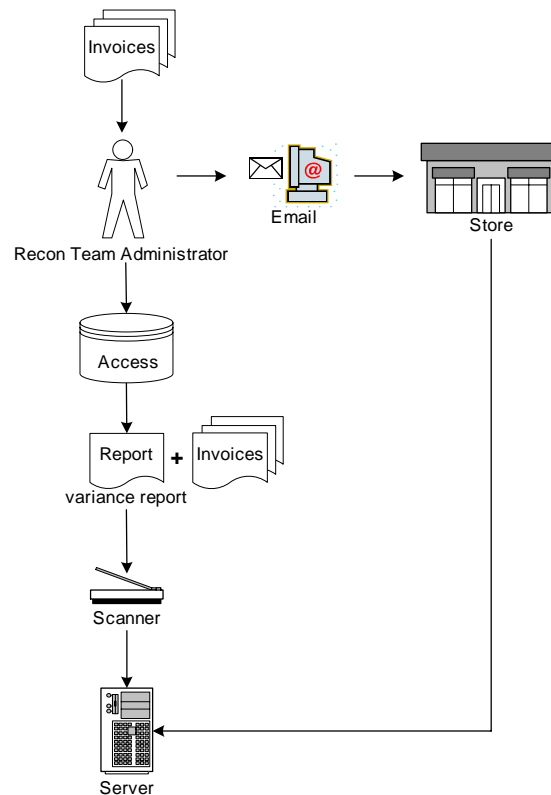
The AP Operator also checks to make sure that no sales tax appears on the invoice. If sales tax appears on a P.O.-related invoice, it is considered to be in variance, and the sales tax must be removed.

- 1.3** After conducting this research, the AP Operator writes codes on the variance invoices that he finds. These codes include the vendor number, store number, variance amount, percentage of variance in relation to the invoice total, the reason for the variance, and any relevant comments. He then sets the variance invoices aside to be checked by his Team Leader.
- 1.4** The AP Operator processes the payable invoices (for a description of this process, see *Step 1: Invoice Entry* in the section *Invoices Without Variances*, starting with step 1.4). He then gives the invoice journals and any variance invoices he may have coded and set aside to his Team Leader for review and approval.
- 1.5** The Team leader inspects each variance invoice to ensure that variances actually exist and that the proper variance coding is recorded.
 **Note:** The Team Leader also inspects the batches of payable invoices that the AP Operator keyed into Trend. For a description of that, see *Step 2: Journal Review* in the section *Invoices Without Variances*, starting with step 2.2.
- 1.6** The Team Leader returns all the variance invoices to the AP Operator with feedback. If invoices were set aside in error, the Team Leader educates the AP Operator about SBS variance policies.
- 1.7** The AP Operator keys the invoices that did not actually contain variances into Trend; he gives the actual variance invoices to the Recon Team administrator.

Step 2: Variance Logging

- **Each variance invoice is logged, and the corresponding stores are notified for correction.**

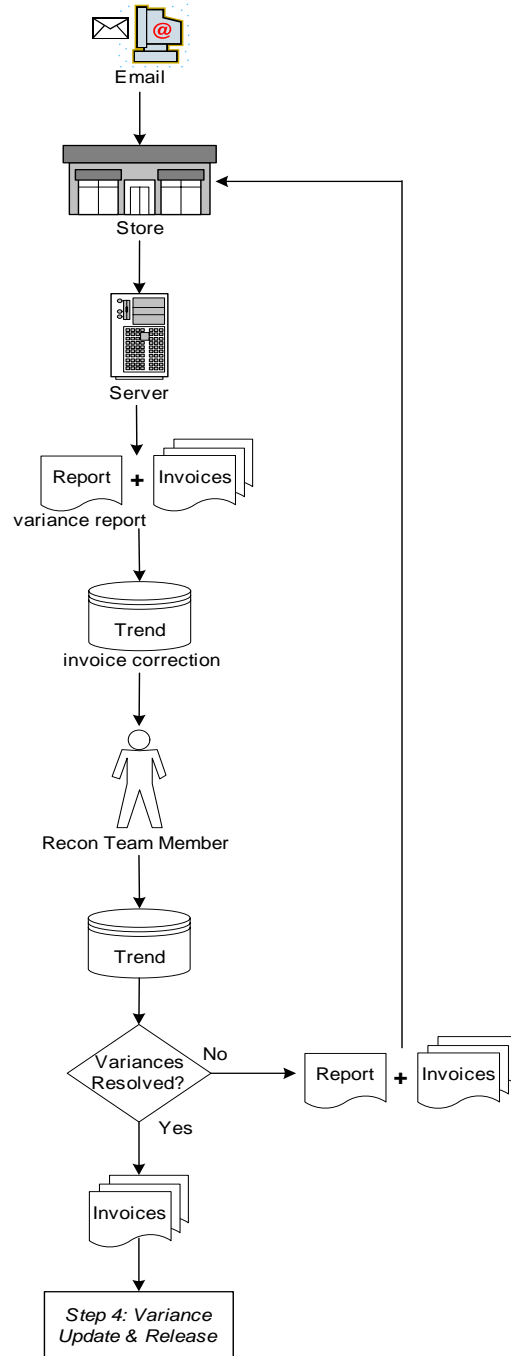
 **Note:** The Recon Team administrator is required for this function.



- 2.1** The Recon Team administrator receives variance invoices from an AP Operator.
- 2.2** The Recon Team administrator enters each variance invoice into a variance database in Access®.
- 2.3** At the beginning of each day, the Recon Team administrator runs a variance report in Access for each store.
- 2.4** The Recon Team administrator scans the variance reports and associated invoices. The scanned images are stored in network folders that are shared with each corresponding store.
- 2.5** The Recon Team administrator sends an e-mail message to the employee at each store who is responsible for resolving variance invoices, notifying him that he has invoices to correct.

Step 3: Invoice Correction

➤ Variance invoices are corrected at the store.



3.1 An accounting employee at a store receives e-mail notification from the Recon Team administrator that he has variance invoices to correct.

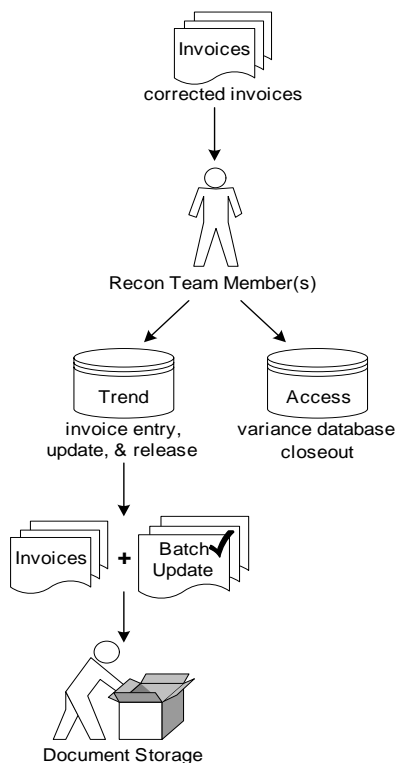
- 3.2 The store employee views the variance report and corresponding invoice images that the Recon Team administrator stored on the shared network drive. He evaluates each variance invoice for correction, contacting the Recon Team administrator or the Recon Team member assigned to his store as necessary for additional information or consultation.
- 3.3 The store employee corrects the variances. Examples of how he might do this include correcting P.O. information in Trend, adjusting an invoice, updating Trend with a different status of products received, etc.
- 3.4 The store employee contacts the Recon Team member assigned to his store, letting him know that the invoices have been corrected. If necessary, he sends the Recon Team member an updated invoice or a copy of the variance report with resolution information recorded.
- 3.5 The Recon Team member evaluates the adjustments made by the store employee, working with the store employee until the invoices are correct.

Step 4: Variance Update & Release

- **Corrected invoices are entered into Trend for processing.**



Note: A Recon Team member is required for this function.



- 4.1** When the variance invoices have been corrected, the Recon Team member assigned to the store enters, updates, and releases them in Trend, signing each batch update sheet.

Upon update, Trend creates a summary of each batch, called a “journal.” Trend assigns a unique ID number to each journal and tracks which invoices are associated with each journal.

- 4.2** A designated Recon Team member closes out all resolved invoices in the variance database in Access.
- 4.3** The Recon Team member gives the group of released invoices to the mailroom associates who handle invoice document storage.

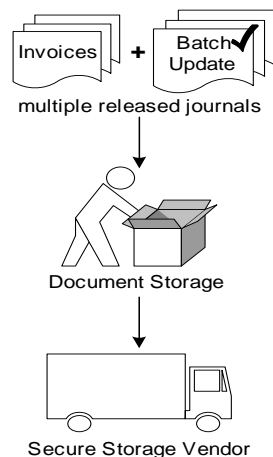


Notes:

- ◆ The Recon Team member uses the same procedures to enter, update, and release corrected invoices that the AP Operator and AP Team Leader use for processing invoices without variances.
- ◆ If the Recon Team member assigned to the store is unable to perform the steps listed above, he gives the corrected invoices to another designated Recon Team member to enter, update, release, close, and send for storage.

Step 5: Journal Storage

- **Function: Journals are boxed and sent to secure off-site storage.**



- 5.1** The mailroom associates who handle invoice document storage receive released journals from Recon Team members.
- 5.2** The document storage handlers box the journals for storage.

5.3 Iron Mountain picks up the boxes and stores them off site in secured areas for SBS.

Definitions

AP Operators

Professional accounting clerks who examine invoices for variances, enter invoices that contain no variances into Trend, solicit invoice approval from Team Leaders, and update approved invoices in Trend.

batch

Invoices that are processed together in one group in Trend. Typically, 30 invoices are processed together into one batch.

batch edit sheet

The printout of a journal that has not yet been updated in Trend; this document is generated directly from Trend.

batch invoice entry

The term “batch invoice entry” pertains to invoices (both P.O.-related and non-P.O.-related) that are sent from vendors to individual SBS stores. Employees at the stores process the invoices on site in Trend and then send them in batches to the SBS corporate office in Raleigh for final approval and archiving.

batch update sheet

The printout of an updated journal; this document is generated directly from Trend; it replaces the batch edit sheet after batches are approved and updated.

exception invoice

An invoice that contains one or more variances; also called a “variance invoice.”

invoice

A bill sent from a vendor to the Stock corporate office or to a store, formally requesting payment for products or services received.

Iron Mountain

A document storage company that SBS employs to store its closed invoices.

journal

A summary of the updated invoices in a batch created in Trend.

P.O.

Purchase order. A form completed in Trend by the Stock buyers, formally requesting products or services.

receiver

A form completed in Trend at the Stock warehouses, indicating that ordered products have been received and signed off.

Recon Team

A team of accounting professionals who examine, evaluate, and arrange for the correction of variances in invoices. Recon Team members also update and release corrected invoices for payment and route them to be boxed and archived.

single invoice entry

The term “single invoice entry” pertains to P.O.-related invoices that are sent from vendors directly to the SBS corporate office in Raleigh.

Team Leaders

Accounting professionals who supervise AP Operators, examine invoices for variances and/or data entry errors, approve invoices to be updated in Trend, release updated invoices in Trend for payment, and route released (closed) invoices to be boxed and archived.

variance

A questionable item in an invoice that must be resolved in order for the invoice to be released for payment. Examples include the following:

- ◆ The vendor terms, pricing, and other data on the invoice do not match the data in the corresponding receiver.
- ◆ The invoice amount (total) is not within the approved tolerance of the amount in the receiver up to a specified dollar amount.
- ◆ The difference between the invoice total and the total in the receiver is greater than the minimum accepted tolerance, regardless of the percentage.
- ◆ The products or services in the invoice do not match those in the receiver, and the products or services have not been posted as received.

- ◆ The shipping amount appears unusual.
- ◆ The vendor charged an unusual or unexpected amount for a certain item.
- ◆ Sales tax appears on a P.O.-related invoice.

variance invoice

An invoice that contains one or more variances; also called an “exception invoice.”

Attachments

A sample of each of the following documents is attached to this document:

- ◆ Batch Edit Sheet
- ◆ Batch Detail Sheet (invoices processed in Trend)
- ◆ Supplier Invoice
- ◆ Variance Report
- ◆ Variance Resolution Form

Batch Edit Sheet

[Document truncated to protect the privacy of the client.]

Batch Detail Sheet (Invoice Processed in Trend)

[Document truncated to protect the privacy of the client.]

Supplier Invoice

[Document truncated to protect the privacy of the client.]

Variance Report

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Variance Resolution Form

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