

**March 2011**  
**Volume 3, Issue 7**

## Inside This Issue

In the News	
1099 Repeal? .....	2
AP Answers	
NACHA's IAT Rule on	
ACH Transactions .....	3
TAPN Tools	
ACH Enrollment Form .....	3
Did You Know?	
P-cards Exempt from	
Gov't. Withholding .....	4
Continuing Education	
Opportunities .....	4

## Relieve Your ACH Aches

We are in the midst of an electronic payments revolution. As overall check volume continues to decline, the use of electronic payment methods such as automated clearing house transactions is on the rise.

TAPN's January 2011 benchmark survey results reveal that 17 percent of organizations make 50 percent or more of their payments using ACH. However, the same survey shows that 60 percent of companies still make 50 percent or more of their disbursements via check. Checks may still be the dominant payment method, but ACH and other methods are becoming more common.

According to NACHA, the electronics payment association that governs ACH standards in the U.S., ACH volume grew by 3.1 percent in the third quarter 2010 compared to the same period in 2009. Banks cleared 3.89 billion ACH transactions worth more than \$7.8 trillion.

It is no surprise that ACH volume is growing. ACH transactions are less expensive to process than checks and take significantly less time to clear. Buyers can also originate ACH transactions more easily than ever before thanks to the availability of sophisticated accounts payable systems.

Despite the benefits of ACH, many organizations opt to stick with checks. As with any technology implementation, setting your organization up to send ACH transactions—as well as ensuring that your vendors can accept and apply the payments—comes with its own set of obstacles. While these challenges may cause some to avoid or delay implementing electronic payments, the benefits of overcoming these obstacles are worth the effort.

### The Remittance Barrier

When you pay via ACH, the vendor does not always know what the payment is for. Sending remittance detail with the payment tells the vendor who is paying them for what invoice. However, passing along this information is often easier said than done.

“Within a NACHA-formatted [ACH] file, you can send the remittance information with the ACH payment,” says Pete Lambert, senior product manager, treasury management, for RBC Bank. “The challenge is for accounts receivable systems to receive that remittance information.”

All ACH files allow for remittance, called addenda information, to be included in the file sent to the bank. Most banks can transmit addenda records via EDI or email. The

problem is there is no way to guarantee that the vendor's bank can send these files or that the vendor's receivables system can accept them.

One way Lambert recommends getting around this is to use an electronic invoice presentment and payment system to receive and pay invoices. EIPP and other procure-to-pay systems create a direct electronic link between buyers and sellers. When a buyer initiates an ACH, the system notifies the vendor automatically with information on how to apply that payment.

Solving the remittance problem is different when dealing with less sophisticated suppliers. Jeff Schultz, vice president of sales and marketing for workflow and e-payment provider Bill.com, says there are ways to provide vendors with payment remittance without the need for complex technology integrations.

When a buyer uses Bill.com to make an ACH transaction, the supplier receives two emails. The first says that the payment has been made, while the second lets the buyer know when the payment clears. Both emails include full remittance details and a link to a web portal displaying a full transaction history.

...continued on pg. 2

### THE ACCOUNTS PAYABLE Leadership Conference



Sharing Solutions to Meet  
the New Demands in AP

► April 11-13, 2011 ► Atlanta, Georgia

See page 4 for more details.

#### Diamond Sponsors:

J.P.Morgan

READSOFT®

#### Platinum Sponsors:

basware

ESKER®  
Document Process Automation

IRSC

perceptive software

#### Cocktail Reception Sponsor:

metaviewer  
from METAFILE

**Although organizations are significantly less likely to be victims of ACH fraud, it is still a serious threat.**



*Many third-party payment applications have fraud protections built in. For example, Bill.com will monitor payment activity and report anything out of the ordinary.*

AP Monthly is a publication of The Accounts Payable Network, the complete resource for executives and managers responsible for accounts payable. TAPN provides deep and comprehensive resources to help you meet your accounts payable objectives and challenges.

Annual Subscription:  
U.S. - \$129.00  
Canada - \$159.00  
All others - \$229.00

VP & Managing Editor:  
Rob Rogers  
Editor:  
Patrick Harbin  
Production Editor:  
Mary Arnold

## The Accounts Payable Network

2100 RiverEdge Parkway  
Suite 380  
Atlanta, GA 30328  
Phone: 770-984-1184  
Fax: 770-984-1174  
membercare@TheAPNetwork.com

*ACH Aches continued...*

“This is a lot better than looking at a bank statement and asking ‘where did that \$1,000 come from?’” Schultz says.

If your organization cannot transmit remittance through any of the above means, there are low-tech solutions available. One common method is for AP to send an email or fax after making an e-payment. In rare cases, AP may call the vendor with the details. Because these methods require additional manual effort and divorce remittance from payment, buyers should only use them if no other option is available.

### Afraid of Fraud?

Many organizations look to ACH as a way to escape the threat of check fraud. According to the 2010 AFP Payments Fraud and Control Survey, 90 percent of companies that reported fraud in 2009 experienced check fraud. Meanwhile, 25 percent of organizations experienced ACH debit fraud, while 7 percent experienced ACH credit fraud.

Although organizations are significantly less likely to be victims of ACH fraud, it is still a serious threat. Lambert offers the following sugges-

tions that AP departments can use to minimize their risk:

- Implement dual controls: one person should enter the ACH transactions and another should approve them.
- Require the use of a security token to release payment: a token is a device that plugs into a computer and verifies the user’s identity
- Be careful what you download: if you download software from un-trusted sources, you could install malware that stores your account information and your vendors’ and sends it to a third party
- Place a debit block on your account: this prevents ACH debits unless you specifically give a vendor permission. You can also create dollar-value tolerances

Because ACH debits are more vulnerable to fraud than credits, a blanket debit block would seem to be a best practice. However, many vendors prefer initiating debits over receiving credits. In the third quarter 2009, banks cleared 2.32 billion debits, compared to 1.57 billion credits.

“Certain industries require debits,” Lambert says. “If you are a large company and you are selling to small businesses, you would probably be authorized to do an ACH debit. Debits are often preferred [by vendors] because they can be originated by the biller. Plus, the biller knows the remittance information because they know what they are clearing.”

Many third-party payment applications have fraud protections built in. For example, Bill.com will monitor payment activity and report anything out of the ordinary.

“Someone may change the remittance information,” Schultz says. “They may go in, alter an account number and suddenly payments are being made to the wrong person. We have protections within our system so that if somebody changes an address or bank account, that it’s not done in secret. Other people know about it.”

Banks too will look at payment activity to identify potential fraud attempts. According to an article published by American Banker, if a buyer traditionally pays a vendor on the same day each month, and one month they

*...continued on pg. 3*

## In the News

**1099 Repeal?** — Thanks to congressional actions, the upcoming 1099 reporting changes will probably not come to pass. On Feb. 2, the Senate adopted an amendment to an aviation bill. The amendment would repeal the expanded 1099 reporting requirements passed with the health care bill. The aviation bill passed the full Senate on Feb. 18. This is the latest in a series of attempts by politicians to eliminate rules that require organizations to report all payments of \$600 or more for property or made to corporations on form 1099-MISC beginning in 2012. Meanwhile, as of this writing, the House of Representatives is expected in early March to vote on its own 1099 repeal, which has already passed the Ways and Means Committee. While repeal is likely, questions still exist about how to offset the loss in revenue. ■

*ACH Aches continued...*

initiate a payment a week early or a week late, the bank may investigate.

In addition, the nature of some payment processors can help reduce the potential for fraud. Whenever a buyer makes a payment using the system, Bill.com debits the buyer's bank account and initiates a credit to the supplier. In this process, the supplier never sees the buyer's bank account number and vice versa.

"Your bank account and routing number is not being transferred to your vendor," Schultz says. "Ultimately, that is the largest area of risk."

#### Who Are You Going to Pay?

Virtually all of an organization's suppliers have the ability to receive an ACH transaction (all banks that are members of the Federal Reserve are required to accept ACH), but that does not mean that every supplier will. There are different strategies available for bringing your suppliers onboard.

A common reason for buyers to switch to e-payment is that, because ACHs clear within one business day,

buyers can delay payments and maximize cash on hand. However, suppliers that agree to accept ACH expect to receive payment sooner.

"You have to do something about the float and negotiate that with the suppliers," Lambert says. "Some are more willing than others." One suggestion for overcoming this hurdle is to tout the benefits of guaranteed on-time payment to the supplier more than receiving early payments.

Enrolling suppliers typically means collecting bank account numbers from vendors who agree to participate. Third-party payment processors often have enablement programs where they reach out to vendors on your behalf.

For example, once a buyer enters their vendor into the Bill.com dashboard, the buyer can choose to pay them electronically. This sends an email to the supplier asking for them to input their account number into the provider's web portal. From then on, all payments to that vendor will go out as an ACH. If the vendor elects not to receive electronic payment, then Bill.com sends a check instead.

Schultz says that there are a number of ACH supplier enrollment challenges unique to small businesses. Banks often maintain online directories of suppliers that they are already authorized to pay electronically. The bank may charge fees for paying suppliers outside the directory. In addition, banks sometimes impose daily dollar limits on ACH transactions, usually several thousand dollars.

"[Third-party payment processors] are directly initiating ACH transactions with our bank through a technical integration that is not something any small or medium-sized business would build, operate, or maintain," Schultz says, adding processors are not subject to similar fees and transaction limits.

#### With Challenges Come Rewards

The obstacles outlined here are by no means the only challenges organizations face when they implement e-payments, but they are some of the most difficult.

"It's efficiency and cost reduction," Lambert says. "Do away with checks and the documentation and then you have those savings." ■

## TAPN Tools

### ACH Enrollment Form

As noted in the feature article, a chief obstacle when implementing electronic payments is actually enrolling your vendors. The ability to send an ACH is useless without your sellers' banking information.

TAPN's ACH Enrollment Form asks for all the information necessary from your suppliers to start sending them ACH payments. Vendors use this form to list their bank account numbers, routing numbers, and SWIFT codes (if necessary).

This tool goes hand-in-hand with TAPN's ACH Enrollment Letter, which you send out first to outline your ACH program and determine if a vendor is interested.

Find the ACH Enrollment Form, Enrollment Letter, and other tools in the "AP Accounting Forms and Checklist Templates" section of AP Tools or at [www.tapn.com/1099Tools](http://www.tapn.com/1099Tools). ■

## AP Answers

**Q:** I want a better understanding of NACHA's IAT rule on ACH transactions. Does it apply to ACH payments to recipients in Canada only or all foreign countries?

**A:** According to NACHA, IAT files apply to all international payments, not just Canadian. In fact, the recipient and the originator organizations are ultimately irrelevant when it comes to determining whether a payment is domestic or an IAT. What matters is if the payment is handled by a foreign financial agency at any stage of the process. NACHA's IAT Executive Summary says that a foreign financial agency is involved in a payment if it: 1) Holds an account that is either credited or debited as part of the transaction, 2) Receives funds or makes payment of funds directly to a person involved in the transaction, or 3) Serves as an intermediary in the settlement of any part of the transaction. ■

# Q&A

## THE Accounts Payable NETWORK

# Did You Know? Government P-card Payments

## P-cards Exempt from Government Withholding

Beginning in 2012, IRS Code Section 3402(t) requires government entities to withhold 3 percent from payments to contractors for products and services. However, if governments pay contractors using a purchasing card, then this obligation is waived until at least 2013.

The Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) requires government entities to start withholding from contractors when making payments of at least \$10,000 after Dec. 31, 2011. While that implementation date is still in

effect, concerns from governments about how to handle p-card payments prompted the IRS to exclude those transactions while they reexamine the issue.

According to Notice 2010-91, p-card payments will not be subject to the 3 percent withholding rules until the IRS releases further guidance. Once the IRS releases the guidance, the exclusion will still apply for an additional 18 months. Essentially, the soonest that governments will have to withhold on p-card payments made to their contractors is 2013—if at all.

During a public comment period, many government

entities suggested that p-card payments not be subject to contractor withholding requirements. Their primary argument was that forcing governments to withhold on p-card payments created a duplicate reporting obligation under IRS section 6050W.

6050W, which became effective Jan. 1, 2011, requires merchant acquiring banks to report to the IRS all card payments processed over their networks. Because the section prohibits duplicate reporting, merchant banks—and not the buyer—bear the full IRS reporting and withholding responsibility. ■

## Continuing Education Opportunities

### Earn CEUs for Certification

#### TAPN AP Leadership Conference

When: *Monday, April 11, 2011 to Wednesday April 13, 2011*

Where: *The Ritz-Carlton, Buckhead Hotel — Atlanta, Ga.*

#### Sharing Solutions to Meet the New Demands of AP

Judy Bicking and Debbie Vander Bogart, highly regarded professionals in the industry and members of TAPN's advisory board, will co-chair TAPN's first live conference. At this premier AP event of the year you will be able to:

- Get certified – there will be pre-conference training and testing programs for the AP and Information Reporting Certification Programs
- Network with colleagues at the continental breakfasts, breaks, lunches and cocktail reception and hear informally what works and what doesn't
- Share ideas in roundtable discussions with your colleagues on key topics that are important to AP leaders
- Learn what solutions are available to solve your AP challenges from the tabletop exhibitors
- Take home best practices that you'll pick up from the 5 general sessions, 18 breakout sessions that you can choose from and informal conversations with your peers

To register for this conference call us at 866-827-6389 or visit us at [www.tapn.com/LeadershipConference](http://www.tapn.com/LeadershipConference). ■

#### The Essentials of Accounts Payable Training & Certification Program

TAPN/IOMA Accounts Payable Certification Program

This intensive, one-day training program will reveal today's best practices for invoice handling, checks, 1099s, e-Invoicing, audits—all the tasks of today's multi-tasking AP specialists and managers.

Upcoming sessions:

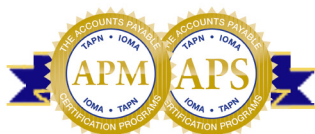
Atlanta • April 11, 2011  
Seattle • May 18, 2011

Exact 2011 dates and locations are being finalized. More information will be available shortly.

To register for this conference call us at 866-827-6389 or visit us at [www.tapn.com/APSeminars](http://www.tapn.com/APSeminars). ■



*Live conference learning and networking opportunities*



**Earn AP Certification CEUs**