James Sagner, *Cashflow Reengineering*, AMACOM, 1997

Chapter 7: Disbursement Activities

ORANGES AND LEMONS,

SAY THE BELLS OF ST. CLEMENT'S.

YOU OWE ME FIVE FARTHINGS,

SAY THE BELLS OF ST. MARTIN'S.

WHEN WILL YOU **PAY** ME?

SAY THE BELLS OF OLD BAILEY.

WHEN I GROW RICH,

SAY THE BELLS OF SHOREDITCH.

Oranges and Lemons, Nursery Rhymes

I WILL GLADLY **PAY** YOU TUESDAY FOR A HAMBURGER TODAY.

J. Wellington Wimpy, in the comic strip *Popeye,* E.C. Segar (1894 - 1938)

Disbursement activities include a variety of payment functions operated by business and not-for-profit organizations. While accounts payable is the most common function, specialized disbursement processing offer significant reengineering opportunities, such as claims paying in the insurance industry and payroll. This chapter focuses on reengineering opportunities for accounts payable, with additional comments on payroll.

Practices in Accounts Payable

Accounts Payable units struggle amidst mountains of paper and procedures to review invoices and purchase orders, determine if items were received in good order, and request the issuance of disbursements in a timely manner. In performing their jobs, many accounts payable managers are driven by two conflicting objectives:

- The "clean desk" rule: that is, bills are paid as received, so long as appropriate authorizations and accounting codes are provided and supporting documentation is attached. In this scenario, there is minimal concern for the value of float, for variances among vendors as to their need for timely payment, or for any of the financial concerns related to cashflow. In fact, payments are often made prior to the due date (usually 30 days from the invoice issuance date or *net 30*) and earlier than industry practice, which is 5 to 20 days after the due date.

- The "pay slowly" rule: that is, senior executives pressure accounts payable units to slow payments to gain float, provided that supplier goodwill is not strained. As the result, days sales outstanding (DSO), the usual measure of collection and payment practice, has experienced a gradual increase over the past five years (according to Dun & Bradstreet data).

This dichotomy has forced accounts payable managers to evolve from performing their relatively mechanical function of paying invoices as presented and reviewed, to managing the process against such constraints as vendor sensitivity, cash discounts, new technology and inherently ineffective procedures.

In many companies, the accounts payable area does not have the authority to require specified purchasing behavior by requestors or to reject payment requests except for specific cause. Thus, the function is essentially clerical, involving the review of authorized approval signatures and budget codes. Managerial input does not occur with regard to scheduling payments (except for those over a large dollar amount, say $50,000) or payment by electronic funds transfer.

The typical payables cycle involves the following steps.

1. Invoices are delivered to the accounts payable area or to the requesting business unit.

2. The requesting business unit prepares a voucher indicating approval by signature and by recording the appropriate accounting codes. For invoices routed to accounts payable, the invoice is matched to an approved purchase order (P.O.) and receiving report. If there is no purchase order, the business unit is contacted to determine if the items were ordered and received, and for necessary codes for accounting purposes. If there is no receiving report, the receiving area is contacted to determine that the item was received.

3. Checks are ordered by accounts payable using a check request form or direct systems input, and data is entered to the disbursement system. The check cycle runs in the disbursement system overnight.

4. Check originals are received the following morning and are either manually or facsimile signed. They are matched to a register for special handling instructions, including "pulls" for cancellation and for checks requiring accompanying documents.

5. Checks are mailed via first class mail or couriered to the vendor, accompanied either by a check stub with supporting detail or, in certain instances, by other material.

Accounts Payable Case: Diversified Services Company

A sample of recent accounts payable activity at a large diversified services company covered some $10 million of accounts payables experience. The average dollar-weighted *early* payment (versus a target of thirty days) was eight days of float for general vendor payables, worth about $20,000/year (at a 10% cost of funds).[1] Each additional day of delay would be worth an additional $2,700. Individual payments greater than $25,000 are listed in Table 8-1.

[1]Calculated as $10 million ÷ 365 days X 8 days of early payment X 10%

Table 7-1

Sample of Accounts Payable Experience

(Individual Payments >$25,000; repeated payees deleted)

PAYEE (INDUSTRY)	$ AMOUNT (000)	DAYS PAID EARLY[2]	PURCHASE ORDER[3]
Fleet/vehicle lease	488	17	N
Public power utility	285	15	Y
Building services	155	15	Y
Insurance services	150	2	N

[2]Days paid earlier than 30 days, the standard credit period for invoices (as in "net 30").

[3]Was a completed Purchase Order executed prior to the expenditure?: Y = yes, N = no

Audio-visual presentation support	45	27	N
Office supplies	34	2	Y
TOTAL PAYMENTS >$25,000 Number = 20	3134	12_	Y = ½ N = ½
TOTAL PAYMENTS Number = 750	4416	8	Y= _ N= _

From the data in Table 7-1, we see that management of the payments versus the due date was actually worse for the large payments than for smaller payments! In fact, not a single large payment (greater than $25,000) was paid on or after the normal due date (day 30).

An analysis of purchase order completion for the data sample indicated that some one-third of all transactions did not have the necessary documentation, despite clear policies requiring P.O.s for all but emergency and convenience purchases (*e.g.*, gasoline for fleet vehicles). Purchases typically accompanied by P.O.s included paper and bulk stationary, equipment maintenance and repair, and new capital and office equipment.

Purchases without P.O.s included restaurants and hotels used for meetings and conferences, couriers, film developing, hardware and paint for maintenance, display exhibitors, temporary services, moving and transfer, and books and magazines. A close examination of the purchases without P.O.s indicated multiple vendors in each category, resulting in a lack of volume pricing and, in some instances, premium pricing. Certain payments were to vendors that no one could identify!

Purchasing was in fact a decentralized function, carried out in some situations by individual departments ordering directly from vendors and at other times by the purchasing unit. No statistics were available to quantify the cost of these practices, and records were dispersed throughout the company. However, multiple payments to the same vendors were observed, without audit or review, indicating that the following opportunities existed:

- quantity discounts
- standardization of products purchased
- enhanced control over payment of items invoiced vs. items received
- improved forecasting of purchasing requirements and determination of economic order quantity

It was recommended that all purchasing functions be centralized, including vendor price negotiation and purchase order issuance. Exceptions would be made for computer equipment, construction activity and other specialized purchasing requiring technical expertise.

The annual benefit eventually developed for the purchasing element of the cashflow timeline was \$2.5 million. This benefit assumes a conservative 5% savings for company purchases (exclusive of computer equipment and construction costs), and is calculated as follows:

5% savings on annual purchases of $56 million		$2,820,000
Less: Cost to Establish Purchasing Dept.		
5 Personnel @ $30,000 salaries and benefits	$150,000	
Manager	40,000	
Purchasing system	100,000	
Overhead, Space	30,000	-320,000
Net Annual Benefit		$2,500,000

There were several required steps for the implementation of purchasing centralization.

- A companywide survey was required to determine the amount of purchasing likely to be impacted by a centralized function, exclusive of computer and similar equipment and construction activity. At the same time, it was useful to document current purchasing procedures and enumerate vendors frequently used. Partial survey results indicated that nearly every business unit queried believed that it was a special circumstance, and used that "status" to circumvent purchasing requirements for some items.

- It was necessary to select an purchasing system with the necessary features to allow standardization of products, polling of approved vendors for quotes, and review/audit of invoices versus established criteria. Certain vendors offer systems widely used in the business community, some of which support complementary Accounts Payable modules,.

- Arrangements were necessary to direct purchase requests to the central purchasing facility. This required notification to each organizational unit as to specific procedures and locations, and follow-up was required for units which continued to purchase directly from vendors.

Practices in Payroll Disbursement

Historically, payrolls have been made by currency and check, with most organizations evolving away from the former. Payroll checks are now the dominant form of pay, although "direct deposit" through the ACH to the employee's bank account is an attractive alternative. In a direct deposit program, the employee submits a voided copy of his or her bank account check to the employer, and various data from that check is used to credit that account on payday. These data include the bank transit routing number and the bank account number.

A primary advantage to the employer from direct deposit is lower cost, in that an ACH transaction is about 10¢ versus the cost of a payroll check generally estimated to be in excess of $1. A secondary benefit is reduced employee absence during the workday, as there is no need to leave the premises to deposit or cash the payroll check[4]. A major disadvantage is the loss of float from the electronic transfer of funds, as the employer is debited at the same time that the employee is credited. Various studies indicate that funding of clearing payroll checks is highest on the third business day after checks are distributed. A company with a $6 million bi-weekly payroll and a 25% increase in direct deposit would experience a float loss of some $45,000, as calculated in Table 7-2.

Table 7-2: Value of Float Loss from Payroll Direct Deposit

(assumes $6 million paid bi-weekly; 25% increase in direct deposit; value of float at 10%)

Days Clearing after Payroll Date	% of Dollars Cleared Each Day	Dollar/Day Value	Value of Lost Float
0	8	$0	$0

[4]For a discussion of the benefits of direct deposit in fraud control, see Chapter 10.

1	10	$15,600	$1,560
2	16	$31,200	$4,992
3	35	$46,800	$16,380
4	16	$62,400	$9,984
5	8	$78,000	$6,240
6	6	$93,600	$5,616
7	1	$109,200	$1,092
	100		$45,864

In this situation, the annual loss of $45,000 in float would be measured against the 90¢ savings per payroll check issued that would be converted to direct deposit. Assuming 8,000 employees, the conversion of 25% to direct deposit would reduce the number of checks issued by 2,000 every two weeks, or about 50,000 checks per year. The resulting savings of $45,000 (90¢ X 50,000) would about offset the float loss, a typical result in programs of these types of programs.

Although certain regions of the U.S. have succesfully promoted the extensive use of direct deposit, many companies report the use of this mechanism at well less than one-half of all pays. The usual reasons for employee reluctance to enroll in direct deposit is not having a bank account, desire to hide pay from a spouse or friend, or simply lack of knowledge about the mechanics of the program. Aggressive promotion, assisted by commercial bank marketing materials, usually results in significant employee participation.[5]

Petty cash is maintained at some businesses as an accommodation for check cashing and travel reimbursement. Petty cash balances are often in the tens of thosands of dollars, with additional costs for delivery of cash, the operation of the cages, and bank coin and currency charges. Many companies have eliminated petty cash facilities, and have provided corporate credit cards and/or automated teller machines (ATMs) at appropriate locations. All petty cash services should be terminated to save the value of the float on the cash balances; the banking, courier and administrative costs of petty cash cages; and to avoid any risk to company employees due the risk of a burglary of

[5]See Chapter 10 for a discussion of fraud problems with payroll checks.

the cash.

Companies handling their own payrolls should consider outsourcing these responsibilities to an outside vendor. Payroll service companies provide a relatively low cost alternative to the relatively high fixed cost of personnel, equipment and systems. Typical annual savings is in the range of $25,000, although this will vary significantly depending on the number of state filings and the size of the employee base.

Opportunities in Disbursing: Internal Improvements

Several internal improvement opportunities are typically noted in reviews of the accounts payable function. Appropriate actions include the review of invoice approvals and authorizations, including determination of dollar limits by approver (much like the release of wire transfers or check signing approval), appropriateness of expenditures (*e.g.*, no tickets for "charity" events unless approved by the Chairman), and adequacy of purchase order and receiving report documentation. These are discussed in the material which follows.

MULTIPLE VENDORS

Multiple vendors are often used for the same product or service, causing the loss of potential volume discounts. This practice appears to result from 2 factors:

- Business unit managers favor certain vendors for reasons which have little to do with the corporate mission; *e.g.*, the vendor is a long time relationship, the vendor is convenient, etc.
- Purchases are made on an "emergency" basis for events which were either unexpected or for which planning was not adequately done.

As consultants, we have observed occasional multiple payments to the same vendors and multiple payments to different vendors providing similar products or services. Typical purchases made from multiple vendors include office supplies, catered events at restaurants and hotels, and display and graphic design. Consolidating these purchases usually results in volume discounts and improved customer service.

PHONEY VENDORS

Fraudulent payments may be made to phoney vendors who enter the vendor file by direct input through purchasing or accounts payable. Few organizations secure vendor files, which requires the assignment of access to vendor files to senior managers with responsibilities outside of those areas. Repetitive payments of, say $500, to ABC Co. occur, and a fraud can go undetected for years. In fact, most frauds are repetitive diversions of relatively small amounts, rather than a single very large embezzlement.

Vendor names and addresses may not have to match file data precisely, and payables clerks, if so notified, can often change addresses from the vendor file to conform to check request data. Furthermore, a significant volume of checks are returned to the originators, at their instructions, for delivery to the vendor. This usually occurs when material accompanies the check, such as an explanatory letter or an order or registration form. Unacceptable control risks result, in that any initiator could divert any vendor payment to a false address.

Banks do not generally verify any of the data on the face of a check, and use only scanline MICR information (to clear the check). Therefore, safeguards against payables check fraud could be seriously compromised. Policies should be developed regarding access to approved vendor files, and the screening of all vendors for legitimacy, *e.g.*, tax ID numbers, proof of a valid business activity, etc.

Payables Practice: Pay Date vs. Due Date

There is a significant opportunity in scheduling the release of accounts payable disbursements. Payables managers should compare actual payables dates vs. due dates, and should develop a diarying system to hold payments to the time appropriate for release. The analysis should include examination of individual vendor sensitivities to delayed payments, such as in the case of sole sources of critical materials and supplies (what economists call a "monopsony") or where there are only a few sources (an "oligopsony"). There should be an evaluation of the float implication of later payment release, and negotiation with vendors for earlier payment through EDI or the ACH. See the Appendix to Chapter ? for an example of such a float analysis.

Published statistics indicate that days sales outstanding (DSO) in the U.S. varies from about 30 to about 60 days, depending on specific industry practice, with average DSO at about 45 days. Clearly, there is room for additional delay given current practice, but these are vendor relations and ethics issues and not included in our discussion.

Review of Invoices

Invoices are often not properly reviewed, in that authorized signatures and accounting codes are not verified and documentation does not adequately support the payment request. Accounts payable staff may have inadequate access to an approved signature list. Few companies purge authorized signature lists regularly, leading to the possibility of fraudulent approval signature from long departed signers. Consequently, check requests are accepted/rejected on the basis of adequate accounting code data. General practice should be the provision of approved signatures to the check disbursement function. This would permit ascertaining that signatures match, and would prevent fraudulent actions by the requesting party.

Organizations often do not provide dollar or purpose constraints to check requests. The following language from a company's policies and procedures manual is not uncommon: "...any company officer [or any officer with the title of Assistant Vice President and above] may approve a check request in any amount". An interesting example noted at one company was a request processed for $750 for a golf and dinner outing. The accounts payable unit had no authority to deny this request and was required to complete processing if all appropriate codes were entered on the form. Good practice is to limit spending authority both by amount and purpose, with such restrictions assigned based on the title and function of the corporate officer.

Opportunities in Disbursing: Bank and Vendor Products

Various bank and vendor products assist the financial manager in the administration of the purchasing and payables functions, including controlled disbursement and account reconciliation. These are discussed below.

PURCHASING/PAYABLES SYSTEMS

The cashflow reengineering of purchasing and pasyables is often hindered by the limited management information available from older mainframe systems. For example, many systems cannot diary payables for release on a specified date (*e.g.*, 35 days after the receipt of the invoice), cannot organize vendors by purchasing frequency and price per item, and cannot feed into systems for electronic data interchange (EDI). There are a variety of "off-the-shelf" purchasing and payables packages available[6] at far lower cost than writing a new, company-specific system. Such packages offer such features as:

- Diarying of all accounts payable to the appropriate check release date
- Realization of any cash discounts offered for early payment
- Enhanced management of situations involving multiple vendors for similar products
- Reduction in purchases made without requisite purchase orders or other authorization, if any

[6]From such vendors as Oracle Systems, Computer Associates and ASI.

- Participation in ACH, EDI or other electronic payment programs for disbursing activity
- Elimination of any duplicate payments sent to vendors in error, which can occur whenever invoice copies rather than originals are used for payment documentation
- Reduced manual file searches through on-line inquiry capability; *e.g.*, to enable compliance with state use tax filings and tax audit requests
- Possible interface with telephone system to automate payment inquiries
- Accurate and timely information through system generated reporting, to control payments and manage cashflows
- Payment of travel and entertainment reimbursements by ACH credit directly to employees' bank accounts, eliminating the need to issue individual disbursements

A particular problem has been with mainframe information systems, installed in many organizations beginning in the 1970s. These systems are often batch, tape driven and written in computer languages no longer fully supported, such as COBOL and FORTRAN. There can be hundreds of "fixes" to these systems, and many of these changes are essentially "hard-wired" in that any further adjustments would require the examination of thousands of lines of programming code (if qualified programmers could be found!).

A further concern is the "century-dating" problem, in that these older systems cannot accommodate the date change beginning with the year 2000. Programs are being developed to adopt 20th century dates to the 21st century. Century-dating will directly impact any routine which compares two dates to begin a work task; *e.g.*, "SHIPPING DATE = 05/07/96; INVOICE DATE = SHIPPING DATE + 10 DAYS". Estimates vary widely as to the cost of replacing these systems, given variations in the information requirements of different organizations. For example, one consulting client determined that the cost of a tailored replacement system probably exceeded $10 million, with modifications costing some $7 million. The off-the-shelf solution appears to be a viable choice for most businesses.

CONTROLLED DISBURSEMENT

The typical corporate disbursement account, similar to your personal checking account, requires that sufficient balances be available to cover clearing checks. Because it is something of a guess as to precisely when checks will clear, balances are left on deposit which are "idle", in that they earn a nominal interest rate (about 2% in early 1996) if a personal account, or an ECR (earnings credit rate) if a corporate checking account. The ECR can be applied to bank services purchased, but is typically worth much less than alternative opportunities for earnings.

A controlled disbursement account offers morning notification of the total amount of check clearings for that day against the corporate account. The Federal Reserve Board, responsible for much of the check clearing activity on the U.S., aggressively manages clearing float, the time required for checks to clear once deposited. A cash letter presentment is the delivery of clearing items to drawee banks for debiting against the makers' bank accounts. The Fed uses multiple daily cash letter presentments and improved transportation routings to minimize the clearing time. The advantage of controlled disbursing is the elimination of idle balances in the bank, and the knowledge by mid-morning of the day's funding requirement.

FULL ACCOUNT RECONCILIATION

A supplement to controlled disbursement is full account reconciliation ("recon"), which automatically matches issued and cleared (paid) items monthly. Reports are sent to financial managers regarding exception items, including the following:

- *Issued not paid*. Checks which have been written but have not cleared are indicated, to inform the issuing organization of outstanding items. Many issuers research such items once three mionths have passed, and rules apply to certain corporations which act as fiduciaries (trustees of the funds of others) to remit such monies to the appropriate state agency after a specified period of time has elapsed (usually six years). This process is called "escheatment".

- *Paid not issued.* A "paid not issued" check presented for payment to the bank was never entered on the corporate issued file. This omission may have been inadvertent, and can occur when checks are locally produced rather than off the main disbursement system, as in a branch office.

- *Stop payments placed and removed.* A "stop" results from the determination that an error has occured in the check issuance process, or from a lost check never received by the payee. The bank constructs a stop file to monitor clearing items, stops items matching the file description, and returns it through the check clearing system for return to the depositor. Any stop removal requires a company action, and is monitored to prevent legitimate stops from being terminated.

- *Force posted items.* A "forced posted" situation involves identical check sequence numbers, which should not occur if checkstock is pre-printed by a check printing company. Duplicate check sequence numbers may indicate questionable activity, such as attempted check fraud through the use of counterfeit checkstock.

Regardless of the size of your organization, full reconciliation is worth the cost, usually a few cents per item. Delays performing the reconciliation are avoided, the possibility of collusion between personnel issuing checks and reconciling those checks is removed, and the cost of the staff required to perform the reconciliation is eliminated.

PROCUREMENT CARDS

The procurement card is a special form of a credit card, issued through a bank or vendor to designated managers who have the occasional requirement for local purchasing. The card eliminates the paperwork inherent in purchasing and payables systems, provides daily electronic information on transaction activity, and controls usage through various codes imbedded in the card technology. These codes impose limits on the amount per transaction or budgetary unit, the number of transactions per card, and the types of purchases permitted. Certain types of purchases are acceptable, but any unapproved activity would be rejected when the card is presented to a merchant for payment. The organization receives consolidated purchasing statements, in electronic or paper format, which summarize all transaction activity.

The major advantages of a procurement card program include:

- *Savings*. Users of procurement cards report that savings are significant when costs are compared to a formal purchase order/approval process managed by a Purchasing Department, perhaps in the amount of one-half or more of such costs. The primary source of savings are in reduced paperwork, labor and postage. Of course, the opportunity for volume discounts and supervision over vendor quality and service is diminished, given the vastly greater number of purchasers and vendors.

- *Employee Empowerment*. Procurement card users report that a significant psychic benefit results from allowing employees greater authority over the performance of their jobs, in that they are given the power to make smaller purchasing decisions. However, each SBU or functional area always had the authority to purchase; it was simply that the actual buying decision was made by the Purchasing Department in the interest of the welfare of the business.

Disadvantages to be considered include:

- *Entrenched Opposition*. Existing specialists in purchasing inevitably oppose procurement card programs, because of their potential to dilute their position in the organization. There is no simple solution to this problem other than the solitication of support from internal audit, the user areas, accounts payable, and, if possible, senior management.

- *Tax Reporting*. Procurement card reports do not provide adequate tax information for each purchase, including data on whether taxes were paid and the amount of those taxes. While enhanced point-of-sale software will eventually remedy this problem, estimates are that only a small percentage of credit card terminals have such capability. Most companies manage this problem by having taxes charged on all purchases, and so reporting this approach to appropriate taxing authorities. It is unclear at this time as to the general acceptance of local governments on tax payment practices for [7]procurement cards.

Opportunities in Disbursing: Outsourcing

A recent development has been the complete outsourcing of disbursement processing, once the organization has determined that payments are owed and due. The process typically involves the initiation of payment by a transmission of a file (in agreed-upon format) to the selected bank through a VAN (an electronic value added network). Formats include such standard formats as ANSI 820, which is an EDI proycol, and custom formats directly from the company's payables system.

[7]See, *e.g*., Michael T. Smith, Beverly Porter and Jack Cantrell, "Purchasing Cards Trip Over Tax Reporting," *Corporate Cashflow*, Sept. 1995, pp. 21-22.

Banks normally can issue payments the day following receipt of the file. The payments are diaryed until the appropriate release dates as indicated in the file, the disbursements are issued, and funding of the daily clearing amount is initiated by notification to the issuer of the outstanding debit. All cleared items are reconciled, and appropriate summary and detailed information is provided.

In other words, the entire process of managing disbursements is handled by the bank, and the corporate customer merely advises on exceptions once the payment file is prepared. Payments may be made in any mechanism acceptable or desired by the recipient, including checks and electronic transactions in ACH, EDI or FedWire formats, in several of the major currencies. Check payments are laser printed on blank safety-paper stock, eliminating the need to order and warehouse pre-printed check stock. Remittance advices are transmitted to the bank in a agreed upon format, printed by the bank, and attached to the check. Current technology permits logos, signatures and other non-standard data to be printed on the check and remittance advice.

Advantages of disbursement outsourcing include the following:

- *Postage.* The bank will take the maximum postage discount allowed by the U.S. Postal Service, as much as 4½¢ less than regular first class postage (in early 1996). This discount is often not available to issuers due to the Postal Service requirement for a high volume of mail to each receiving zipcode. Thus, an organization sending 2,500 disbursements per month, consisting of perhaps 1,000 accouts payable checks and 1,500 payroll checks, would save more than $1,000 in annual postage costs.

- *Check Signing.* Current technology permits the digitizing of authorized signatures, with the signature residing within the computer system of the bank. This capability eliminates the requirement to physically sign checks or to safeguard signature plates for use on check signing machines.

- *Special Messages.* Messages can be inserted on the check and/or on the remittance advice, such as "duplicate check" or "ask about payroll direct deposit" (for payroll checks). These messages can change each time checks are issued, to reflect specific promotional or informational requirements.

- *Local Check Printing.* There may be the requirement to issue checks locally, such as in a branch office, or on an emergency basis after the file has been transmitted to the bank for processing. Desktop technology is currently available to issue such "emergency" checks and transmit an issued file to the bank for inclusion with disbursements processed in the normal manner.

- *Access to Electronic Disbursing.* Many organizations are intimidated by the various requirements for electronic disbursement using ACH or EDI transactions, involving protocols, VANs (value added networks), encryption and other data transmission requirements. Banks offering disbursement outsourcing can provide complete access on a "turn-key" basis to these electronic payment mechanisms, and the only requirement for the corporate payor is to indicate the desired payment method in a specified field in the file.

- *Changes in Bank Accounts.* Issuing organizations may desire to add or delete disbursement banks, due to specific business requirements, conflicts with current banks, changes in bank management due to merger or acquisition, or other factors. While it is not difficult to accomplish such changes if checks are internally prepared, some pre-printed checkstock will inevitably remain, and lingering uncleared checks may force the account to be held open for lengthy periods.

  A more complex problem is extracating system feeds for electronic transactions from the current bank for transfer to the new institution. Banks providing disbursement outsourcing will normally allow checks to be issued on any bank, and can accommodate such changes quickly and painlessly.

- *Security Issues.* The bank accepts full responsibility for the security of the disbursement, so long as various protocols are observed regarding file transmission and other controls. The issuing organization has no concern regarding stolen checkstock, altered checks presented for payment or other possible breaches of security.

Cost Analysis of Internal Processing and Outsourcing

The cost of managing an internal disbursement function varies substantially by company, driven usually by the extent of internal automation, the volume of disbursements, and the number of disbursing locations. Credible analyses reviewed by the author show internal costs ranging from $1.50 to $8.00 per disbursement, including all internal, banking and mailing costs. Banks offer disbursement outsourcing for about 60¢ per check, and significantly less for ACH and EDI transactions (usually 10¢ to 30¢). The Appendix to Chapter 7 provides a template for developing an estimate of internal costs.

Unless volume is in excess of 25,000 disbursements per year, it normally will not be attractive to consider outsourcing. This is due to the somewhat extensive implementation process necessary to convert existing procedures to file formats which can be successfully transmitted to the bank on a daily basis. However, the potential to develop significant benefits is clear: a savings of $5.00 per disbursement on a volume of 25,000 transactions equates to $125,000 annually. Furthermore, savings will develop from permanently eliminating certain fixed costs, such as the equipment used to print checks, the check signing machine, etc. Large organizations issuing in excess of 10,000 items per month are likely to save less per transaction due to inherent efficiencies in the current process, although the total annual benefit may be well into six figures.