



Payables Outsourcing – One Solution To Many Problems

Michael Longhi

Deputy Treasurer for Accounting
and Treasury Management, Arlington County

Diane Battle

Senior Vice President
Treasury Services Division, Wachovia Bank

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Presentation Overview

- Project Characteristics – Problems To Be Solved
- Critical Risk Points – More Problems
- Project Tools – Forming Solutions
- Disaster Recovery And Business Continuity Solutions
- Putting Control In A Controlled Disbursement Solution
- Expense Problems
- Cost Solutions (Cost Benefit)
- Project Accomplishments
- Key Ingredients For Success
- Questions
- Appendix – Frequently Asked Questions

Project Characteristics (Problems To Be Solved)

- Existing in-house check printing software version was no longer supported, equipment had exceeded its useful life.
- Arlington Government & Schools decided to implement separate Oracle ERP systems. The existing systems would be dismantled without delay on specific dates during the second and third quarters of 2006.
- Create an automated disbursement process for 6 functional areas, what we called 'tracks':

County Accounts Payables	County Payroll
Dept. of Human Services	Treasurer's Refunds
School Payables	School Payroll
- Six separate disbursement implementations had to occur in close sequence.
- The Treasurer's Office wanted to support departmental desires for decentralized processing. However, such processing could not be allowed to compromise liquidity management, audit and accounting standards.
- Each department had specific disbursement features and functionality they required or preferred.

Project Characteristics (Problems To Be Solved)

- The new process must:
 - Interface with the County and Schools separate Oracle Financial ERP general ledgers. Both systems are stand alone installations, hosted off site.
 - Improve reconciliation and fraud prevention with payee match positive pay and ARP (automated reconciliation process).
 - Reduce abandoned property work load and quantity of items by:
 - Easing/increasing use of ACH
 - Making each disbursement department responsible for due diligence and follow up
 - Realize significant savings by decreasing the administrative burden and costs associated with generating checks in house on aging equipment
 - Improve disaster recovery, control and accountability of all disbursements
- Eliminate the administrative burden and cost of fulfilling special checks, by eliminating ‘routine’ special checks.
- Provide a safe and secure processing environment with complete disaster recovery redundancy.
- Create an operating environment that gives the Treasurer’s Office, various County Departments and the Schools access to the best disbursement practices and the most timely information available.

Critical Risk Points (More Problems)

- Timing from initial involvement to implementation.
- No backup system. Neither Oracle installation could be connected to the old process. The new process had to work from the first attempt at production.
- At the transition point, the Treasurer's Office had to go from physical control to watching data move on computer screens.
- Nobody had anything to touch.
- We could not allow 'accommodations' to redefine/defeat the project goals.
- Each agency had a different dedicated software integration consulting team, ratio of 6:1 to the Treasury/Wachovia team.
- Schools were moving their payroll from a predominately check based process to ACH simultaneously with the transition to Payables Outsourcing.

Project Tools (Forming Solutions)

- Dedicated/Consistent Project Management Team From Wachovia
 - Developed and Maintained a Project Plan – Facilitated Weekly Working Sessions.
 - Coordinated interaction with the Oracle systems integration team leads.
 - Designed data flow charts used to define each department's processing track.
 - Maintained Issue and Action List- Managed all tasks for a successful outcome.
- Establishment of:
 - Single Point of Contact (SPOC) at each agency.
 - A cross functional implementation team at each agency.
- Consistent Senior Management Briefings

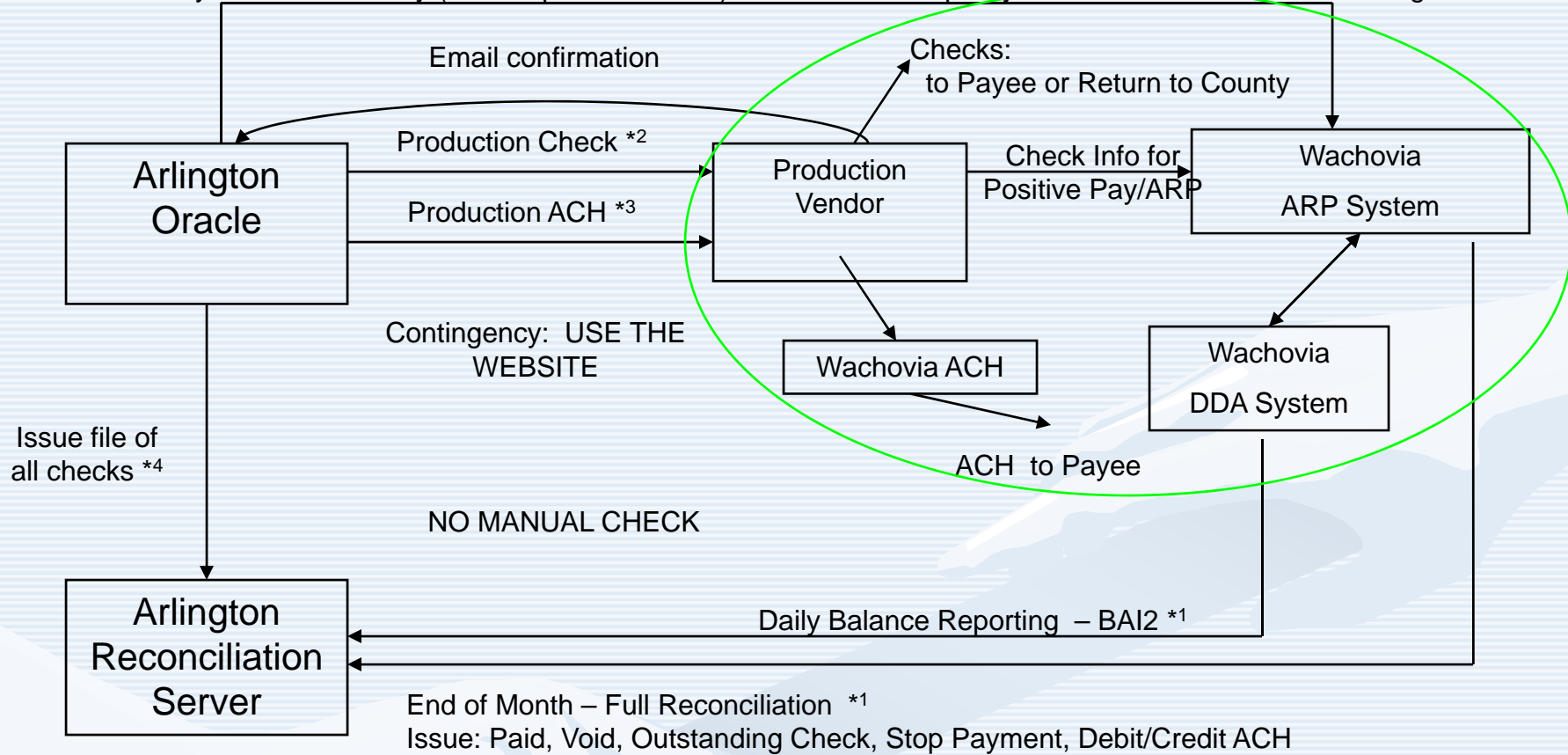
Project Tools (Forming Solutions)

- Concentrated Communication in the final implementation phase with:
 - Pulse Meetings during launch period
 - Sharing of all project documents across teams
 - Sharing of the risk assessment discussions amongst all levels
 - Staying focused on the goal, timelines and risks
 - Final Project Assessment Session “Lessons Learned”

PROJECT TOOLS

ARLINGTON COUNTY ACCOUNTS PAYABLE PRODUCTION WORKFLOW

Positive Pay file for Quick Pay (checks printed on-site), Void Check, Stop Payment via data transmission using SFTP *1



- 1 Wachovia Standard file format
- 2 New Payable Oracle file format defined by County GL system
- 3 Same format for Check and ACH
- 4 New file format to be defined by County

Wachovia Connection access for Stops, Check Inquiry, Manual Input is available as a Backup

County Payable APRIL 3, 2006
Implementation

Project Tools

	A	B	C	D	E	F
1	Tasks -	Done	Start Date	End Date	Assigned to:	Comments
2	School Payable July 2006				David Liechti	SPOC
3	Online Payables Notification of Sale (NOS) is submitted to Sr Implementation Manager, Gayle Montgomery	✓	2/23/06	2/23/06	Diane Battle, Gayle Montgomery	
4	Gayle sends the NOS to Payformance	✓	March	March	Gayle Montgomery , Anna Marie	
5	Request the needed services for the new accounts (i.e. Payee Match)	✓	2/23/06	2/23/06	Kaye Wright	yes
6	Gayle contacts the David to confirm information (i.e. passwords)		?		Gayle Montgomery, David	5/12 Kaye will check on the date
7	Administration set-up					
8	Anna Marie, Payformance, contacts David		?		Anna Marie Biche, David	
9	Positive Pay Performance form is filled out and fax back to Anna Marie		?		Randee will check on the date	This form is to verify if you can not make a decision by 2pm on your positive pay item , you give Wachovia Authorization to either pay the items or return them.
10	Mark up of check option been sent to Payformance		1/27/06		Michael Longhi, Anna Marie, David	
11	Establish Payment Schedule (Issue Data Input Schedule)				David sends to Anna Marie	excel sheet was sent from Anna Marie to the SPOC
12	Training on Wachovia Connection:				David, Diane Battle	Randee sent the link to David
13	Payformance Training		6/12/06	6/16/06	Anna Marie	payables people will be trained to know what to look for on the Payformance website for reports
14	Production Check & ACH file					
15	Fact: both ACH and Check files will be sent to Payformance	✓	4/27/06	4/27/06	Dennis	
16	Fact: check format will be different then the ACH Format	✓	4/27/06	4/27/06	Dennis	ACH format will be NACHA file format - Denis will sent out an email to confirm to Payformance
17	SPOC send data layout for CHECK that are needed to Anna Marie	✓	4/6/06	5/8/06	Brad Weiner	5/1 Check file layout was sent out, Tatiana sent to Anna Marie 4/27 stated layout by today, file will send out shortly (May 3)
18	SPOC send the Check data file		4/6/06	5/8/06	Brad Weiner	5/12 late Brad stated that they are still working on the file
19	SPOC send data layout for ACH that are needed to Anna Marie	✓	4/6/06	5/1/06	Brad Weiner	5/1 Brad stated that they will use the standard ACH format

Disaster Recovery and Business Continuity Solutions

- The Treasurer's Office role is to keep the train station at the bank open.
- User agencies have to get data in the box car and on the track
- A disaster would have to take out the bank and their subcontractor. With their multiple redundancies this would be a very geographically broad event; meaning most of the east coast.
- Payables Outsourcing transitioned a manual process to a Web based solution.
- Now that the process is on the Web, the Treasurer's Office can manage all liquidity via TREO web enabled phones from anywhere.
- A Treasurer's Office team is set up to manage liquidity without any office access – indefinitely.
- Treasurer's Accounting Division staff can move to a Wachovia regional office (training room) in case of long term disruption.
- Each accounting staff member maintains a jump drive at home with their critical processes on it.

Putting Control in a Disbursement Solution

- The Treasurer's Office can suspend, delay or delete any file.
- Liquidity can be constantly monitored
- Monitoring of all submission content
- Approval of all positive pay exceptions.
- Block all debit transactions, allow certain pre-approved ACH debits
- Reconciliations can constantly be monitored

Expense Problems

- Required Replacement Equipment (HW/SW License and Support) \$390,000
- Processing Costs (\$5.50/check, studied in 1997) \$676,500
- Distribution & Staff Costs \$108,890
- Total Costs 1st yr with new equipment if in house process was to continue in an Oracle environment. **\$1,175,390**
- Subsequent annual cost; processing, distribution and annual software contract (\$25,000) **\$810,390**

Cost Solutions (Cost/Benefit)

Total Costs 1 st yr with new equipment	\$1,175,390
Less savings by converting transactions to ACH	\$33,331
Less outsourcing expense	<u>\$180,810</u>
Saving first year	\$961,249
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Total Cost Subsequent Years with in house processing	\$810,390
Less savings by converting transactions to ACH	\$33,331
Less outsourcing expense	<u>\$180,810</u>
Subsequent Years Savings (per year w/no in-house check production)	\$596,249

Project Accomplishments

- Dramatically improved Treasurer's control and accountability
- Successful implementation of an automated disbursement process. Multiple redundancies for disaster mitigation.
- Increased audit control and accountability while maintaining a decentralized disbursement process.
- Significant financial savings
- Project sets the standards on how future disbursements will be conducted and places all exits of cash completely in control of the treasurer.

Key Ingredients for Success

- Bank project management team provides clarity and credibility
- Size project deliverables carefully to ensure accuracy.
 - Allocate adequate time to review operational timelines, technical parameters and product functionality.
- Allocate adequate resources to create and maintain cross functional teams for the duration of the project.
- Uphold processing standards and need for consistency across all levels
- Test, Test, Test, Test and when finished; Test again. That is for each track!
- Communicate, Communicate, Communicate
 - The most important part of communication is listening.

Questions ?

Thank You:

Michael Longhi

Deputy Treasurer for Accounting and
Treasury Management, Arlington County

(703) 228-3143

mlongh@arlingtonva.us

Diane Battle

Senior Vice President

Treasury Services Division, Wachovia Bank

(703) 760-5402

Diane.battle@wachovia.com

Appendix

Frequently Asked Questions

The questions on the following pages are designed to give the reader adequate tools to evaluate the impact of implementing a fully automated disbursement solution of this scope.

Our recommendation is to use these questions as part of any decision process to undertake a similar project.

Details of many of the results the Arlington Treasurer's Office has realized are summarized in this section.

Core Questions and Tasks to Assess the Value of this Solution

Cost Savings

- Plan to calculate internal processing costs in terms of printing costs, mailing costs, internal distribution, IT staff, reconciliation, customer service, fraud prevention, etc.
 - **Our savings are calculated as \$961,249 in the first year and \$596,249 in each subsequent year.**
- Determine the savings (on an annual basis) that can be realized related to overall payment processing.

Core Questions and Tasks to Assess the Value of this Solution

Efficient Use Of Resources

- Were you either able to displace or redeploy resources as a result of implementing Integrated Payables? If yes, what is the value?
 - **Yes, we are saving approximately 1,248 staff hours per year over seven positions. One position has effectively been reassigned new duties since the need to have a person present most days is eliminated.**
- Have you been able to free-up staff time? If yes, how much and what is the value?
 - **Savings in salary is over \$40,000 spread over 6 staff members. An additional FTE has effectively been reassigned completely.**
- Have you been able to reallocate hardware and/or software for other uses? Is there a value associated with this?
 - **Eliminated the need to make equipment and software purchases of \$390,000**
- Has utilizing Integrated Payables positively impacted your Business Continuity processes? If yes, in what way?
 - **On-Line Payables is integral to the Treasurer's Office Continuity of Operations Plan. With On-Line Payables, and other preplanning done in conjunction with Wachovia, the Treasurer's Office expects it can manage disbursement, liquidity management and investments for several weeks even if denied access to our office and systems by using Wachovia Online, Internet access and PDAs.**

Core Questions and Tasks to Assess the Value of this Solution

Paper To Electronic Payment Migration

- Determine the percentage of electronic payments vs. paper.
 - **Current ACH use, other than direct deposit is relatively small. A key benefit of the On-Line Payables solution is that nothing needs to be done by Treasury to move transactions from Checks to ACH. The user agencies just obtain the ACH information and set the flag in the Oracle general ledger to make the change.**
 - **In house production of checks has been effectively eliminated. The County A/P and Payroll Departments can produce in-house checks via Oracle. The Treasurer's Office controls this through managing the positive pay file. They produce one or two checks per day.**
 - **Schools saw no need for any in-house check production.**

Core Questions and Tasks to Assess the Value of this Solution

Other Efficiencies

- Which areas/departments did you have to receive buy-in from in order to move forward with implementing Integrated Payables?
 - **As an elected official the Treasurer is a considerable force in both the County Government and Public Schools. Executive management was brought on board and staff was shown a confident plan supported by a qualified team from the bank.**
- How much more efficient has your operation become? Can you put a value on it?
 - **The Treasurer's Office now deals in data not paper checks. We can immediately start, suspend or stop any of the six tracks. We have immediate access to information. Problems rarely exist and those that occur are easier to diagnose.**
- Have your customer service processes improved? If yes, in what way?
 - **Agencies likewise have access to their tracks to research, do stop pays and conduct other routine functions.**
- Have relations with your trading partners improved? If yes, how?
 - **Agencies appreciate the independence. Venders are signing up for ACH very quickly. Slip ups have been few and are much easier to fix given that we deal in data not paper through the mail.**
- Do you feel your Fraud Management processes have improved? If yes, how?
 - **There has been a dramatic improvement in not only fraud control but general accountability and consistency.**