Profit From Our Experience

10 Best Practices for Managing Post-Audit Claims

Why is Managing Post-Audit Deductions So Important?

It's up to you to disprove post-audit deduction claims. And it is very important that you have an effective system to manage the process because up to 50% of post-audit deductions can be excessive or completely wrong. And if you don't act quickly, you lose and the deductions stand. That could result in the loss of hundreds of thousands—or even millions—of dollars every year for your business.

Auditor errors result from misinterpretation of terms or promotional deals, or accidental double- or even triple-dipping on valid allowances. Errors can also include deducting for allowances that were claimed previously and shown to be invalid. Even deductions that were previously repaid to you can get deducted again later. It's a slippery slope for sure.

This ebook provides **10 important best-practice tips** you can use to create an effective process for managing post-audit claims.

Publish a Post-Audit Policy

A well-crafted post-audit policy is your first line of defense. Have your CEO sign it, and email it to your customers and to the commissioned post-auditors so that your policies are on record.

- Decide how far back you will accept an audit claim. Many retailers audit 24 months or later, which makes it almost impossible to research the claims in the time allowed.
- Require that claims be fully supported with documentation, including invoices and trade deals.
- Make sure all your promotional deals are clearly documented (quantities, pricing, expiration periods).
- Insist on at least a 90-day investigation grace period for your research before the deduction. Don't accept a time period you can't live with.

Keep Your Trade Secrets...Secret

Clearly advise auditors that your marketing and promotional plans, pricing and operational policies are confidential trade secrets. Otherwise, they may share information with other auditors. The big post-audit firms work for a number of your customers, so be alert for auditor data sharing. Your confidential trade programs may get applied to the wrong markets or customers.

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Simplify Trade Promotion

Deal Formats

Standardize the templates and clarify your sales and promotion offer sheets. Remove any gray areas open for misinterpretation, such as promotions based on ship date, order date and receipt date. It's very important to get your sales and marketing departments involved to tighten internal control of sales agreements.

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Speed Up Your Deduction Management Response

You don't want to run out the grace period and end up writing off invalid charges. Upon receipt of post-audit claims, make sure the auditor is aware of your policy outlining the investigation grace period. Insist that they don't make any deductions until that is complete.

Consider assigning a dedicated person or, better yet, a team to handle post-audit claims. This will help mark the claims as a priority so they will be handled in the timeframe you need. This dedicated team can develop research procedures and workflows, track deduction KPIs and address post audits quickly. Also, instruct your team to establish improvement targets by deduction code to spot trends and abuse.

Reject incompletely documented claims out of hand, and explain that your corporate policy and Sarbanes Oxley compliance prevent you from accepting undocumented charges.

Establish an Automated
Document Management System

You may receive post-audit claims two years after the fact and need to quickly access invoices, pricing and promotional deal sheets. Use promotional funds and deduction tracking to strengthen the audit trail. An automated system can track all claims and deductions by invoice with details on the resolution. That way, you can always determine if a post-audit charge is a double (or even triple) deduction. The money you save on invalid deductions may easily pay for this new automated system.

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Use Trade Promotion and Deduction Management Software

Use software that will link and store all the relevant information and documents for every transaction. These include invoices, sales data, deal sheets, accrual balances and access to prior deductions. This will prevent you from having to dig around in different systems and files to research the deduction.

Having the deal accrual balances and prior claim/deduction histories at hand will help you prevent double- and triple-dipping on deductions. This software system can also improve your regular deduction management KPIs aside from the post-audit work.

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Establish a Post-Audit Contact Database for Customer Involvement

Knowing who to call and when—post-auditor and customer—will drastically reduce resolution time and enable you to cut through excessive red tape. The post-auditor—as well as your customer—will try to isolate your communications to the auditor alone. Don’t fall for it. If you do not get the cooperation you need, escalate the problem to customer management.

Identify
Root Causes

You may see certain patterns that need further exploration. For example, if trade deals are consistently misinterpreted, your deal sheets may not be clear. If you ship FOB Origin, and the customer deducts freight charges, you should review the purchase agreements to make sure they agree with your policies.

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Resist the Urge to Accept Settlements

Settlements and write-offs are tempting, seeing as a single claim can cover one hundred line items. Nevertheless, insist that each claim be documented. Then research them and demand repayment for those that are invalid. Settlements will only hurt your company in the long run. Taking the easy way out will encourage more post-audit deductions in gray areas subject to misinterpretation.

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Be Consistent in Enforcing Your Policies

Successful and consistent enforcement of your policies is critical. When you do it right, word will quickly spread among post auditors that your company is not a pushover. You will get a reputation as a principled company that insists on being treated fairly. To keep you on the right track, focus on the flawless execution of the best practices highlighted in this ebook. Equally important is to ensure that customers accept your deductions policy up front. This helps sets the right tone from the start. And don't forget your internal teams as well. Gaining alignment with internal stakeholders (sales, legal etc.) on how post audits will be addressed, communicated and approved is critical for success. Speed matters and your OTC team cannot win the battle alone.

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Carixa is a proven SaaS solution that solves your toughest receivables challenges…from auto-cash application and deduction resolution to collection dunning and credit management.

What makes us different is our deep industry knowledge that empowers the technology to work smarter for you. We apply over 40 years of accounts receivable automation software and hands-on operational expertise to create the most effective processes.

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