



**THE CREDIT DEPARTMENT, INC.**  
*SMART BUSINESS. STRATEGIC VALUE.*

April 2003

***“Improving cash flow and earnings through strategic credit management.”***

## Reverse the Trend of Increasing Post Audits

### **Are you noticing an increase in the volume of customer deductions?**

You're not alone. Recent surveys show that across all industries, deductions now represent over 5 percent of all accounts receivable open items.\* As customers' profit margins suffer, they may seek to increase profitability by aggressively deducting from vendor checks. While legitimate deductions for marketing offers, pricing errors, shortages and returns are to be expected, companies are most frustrated when dealing with *unauthorized* deductions--especially post audits.

### **Third-party auditors**

Third-party auditors can be a major headache for vendors. Essentially, these auditors are paid a percentage of the post audit that is deducted on a vendor check. They have every incentive to be as aggressive as possible without regard to the legitimacy of the deduction. Even where there's no contract to warrant it, we've seen these groups charge vendors outrageous fees for "late trucks", "nuisance fees", and even "manual check-writing fees". This practice ties up vendor resources to research and collect back the money. In addition, these audit companies may take double deductions or deduct for unauthorized deals. One of our "favorites" is for deductions on offers that were later modified and deducted correctly. Often times, these auditors offer little or no claim support to justify the audit.

### **The challenge...**

By their very nature, post audits take a huge amount of time to identify and research. Often, pertinent information has been archived or stored off-site. Verifying terms/discounts with field reps takes valuable resources away from the sales cycle. It is not uncommon for final resolution and payback to take 60-180 days. Even then, post audit recovery rates average 20-50% at best\*\*, depending on the availability of backup.

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*The Credit Department, Inc. can help you manage your credit needs through professional credit management outsourcing and consulting. For more information, contact us at 800.451.0164, email [info@TCD.com](mailto:info@TCD.com) or visit our web site at [www.TCD.com](http://www.TCD.com).*

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## The solution...

- **Address post audit claims quickly.** Some auditors will provide a "grace period" to respond to the audit before it's actually deducted. DON'T MISS THIS OPPORTUNITY TO PREVENT THE DEDUCTION FROM OCCURRING. Make sure Credit has access to the marketing offers and can readily disprove the deduction. If the audit is legitimate, then authorize the customer to deduct.
- **Ensure that deal sheets for marketing offers contain no gray areas.** By having clear communications between sales, credit and customers, many post audits can be avoided. You need to detail quantities, pricing, type, and expiration periods so there are no misunderstandings.
- **Draw up agreements with customers regarding post audit policies.** Remember that if you do not have an agreement, it becomes your word against the customers'. Key points in an agreement may include: deduction audit expiration period; no deductions without substantiated backup; no deductions taken without prior approval.
- **Aggressively counter post audits.** Don't ignore an audit--whether it's valid or not. Let the auditor know that you're carefully monitoring each and every claim. Document your research back to them and demand they refrain from deducting, or, if they already have, pay back within 10 days. If they do not repay within 10 days, call each week until it's paid.
- **Settle balances only when absolutely necessary.** It's much more effective to detail each part of the claim to determine legitimacy than to just make an offer to settle. An offer only encourages future audits.

Prevention is the most effective method of dealing with post audits. Clear communication--both written and verbal--is essential. Develop a methodical, issue-by-issue, customer-by-customer approach. During the resolution process, examine the core reasons for problems that show up as post audit deductions. Take the opportunity to apply these reasons to process changes within your company. Then, you will curb the growth of post audit deductions and can concentrate your resources on a more productive area!

**For more information on deductions, credit, risk and collections management e-mail us at [info@tcd.com](mailto:info@tcd.com) or phone us at 800-451-0164.**

*\*Business Credit Magazine, NACM*

*\*\*The Credit & Financial Management Review*

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