Finding the Dollars in the
HAYSTACK

By Henry Ijams

I n today's challenging economic climate, every dollar truly counts. Thus, as you manage your supplier base, it's important to uncover every area where transactional anomalies may have resulted in missed dollars due back to your company. Statement auditing, the practice of reconciling your suppliers' accounts receivable (AR) records with your company's accounts payable (AP) records, is a very effective method to uncover such missing credits or even underpayments to suppliers. At the same time, it reinforces positive communications and liaisons with valued suppliers.

For many decades, the traditional recovery audit process centered on an in-depth review of a company's AP data to identify issues related to contract compliance, missed discounts and pricing errors. In conjunction, the traditional recovery audit included a review of AR records for a small subset of the company's top suppliers to identify open credits on supplier records. This process was performed manually in traditional recovery audits and focused only on the largest suppliers due to the effort and resources needed to properly handle this audit process. This narrow focus usually limited statement audit claims to a small percentage — around 5 percent — of recoveries found by the traditional audit.

Five best practices for statement auditing can **help uncover financial anomalies** by examining a large percentage of the supply base.

The biggest challenge in successfully completing a large-scale supplier AR review is managing communication and outreach with mass volumes of suppliers. In the past decade, automated technology has enabled a new approach for statement auditing as an ongoing, integrated process rather than a single, one-time event. Because of the high volume of suppliers to be contacted, an automated statement audit process can reach the breadth of a company's supplier population to request, collect and analyze AR data, resulting in significantly higher statement claims than traditional methods. Successfully executed, an automated supplier AR audit may find previously unidentified sources of dollars due the company.

Through automation, companies can perform a much more comprehensive statement audit by targeting suppliers for 95 percent or more of spend. This contrasts with the top 5 percent to 20 percent of suppliers usually targeted by traditional recovery audits, due to manual processes that simply are not capable of analyzing the massive number of total supplier connections. After all, there can be tens of thousands of individual suppliers, with multiple documents for each. However, when the statement audit process is automated from outreach to suppliers to managing the resulting documents, it enables a comprehensive statement audit — and one that can be performed on an ongoing basis for a

rolling time frame. This provides a safety net for a company's AP department by performing comprehensive supplier AR reconciliation on a regular basis, uncovering a continuous stream of credits.

Additionally, statement audits provide opportunities to remain in contact with suppliers and simultaneously collect and update supplier information. The result is clean, up-to-date supplier data, and may also give you some additional insight into supplier relationships and AR hierarchies.

Ongoing statement audits also help proactively identify process issues with suppliers to reduce future reconciliation issues. For example, a statement audit can proactively identify data quality issues that may impact the financial bottom line.

checks. Multiply the costs of processing even a small percentage of returned checks (one client example included more than 1,500 returned checks in a single year), and the money lost due to bad supplier data is significant. Automated statement audit processes can help clean up the data, and thus reduce these types of needless expenses.

Best Practice Statement Audit Steps

To best achieve a successful statement audit, five best practices will help improve compliance, identify the root cause of accounting anomalies and establish solid, ongoing processes for better accounting clarity. Implementing the following steps

Visibility into
can identify accounting

Even something as trivial as supplier ID mismanagement through clerical error can cost companies millions each year. Or, consider the many ways in which supplier names can be entered into your system. (The ABC Company could be entered as "The ABC Co." or "ABC Company," creating multiple locations when there should be only one.)

If funds are open on AR in one location or file, and another location shows a past due balance, this can cause confusion regarding payment coding. When it happens with multiple suppliers, a seemingly simple problem can cause significant issues. Incorrect supplier data can also cost companies money when something as simple as a bad address causes returned

will lead to a successful statement audit process.

**1) Start with good supplier data.** To communicate with suppliers, the first step is ensuring you have the right data and communication preferences (for example, some suppliers prefer email to fax while others prefer other forms of electronic communication). Supplier data can deteriorate quite rapidly. For an effective statement audit, you need a system — either an internal or third-party service — to manage supplier data, cleanse and identify issues, enrich with external data, and ensure contact information and communication preferences are up-to-date at all times through automated two-way communication.

2) Drive supplier compliance across multiple communication channels. Supplier compliance is an ongoing process; contacting a supplier just once is not enough. The statement audit process is analogous to collecting past-due balances. Outreach statistics show that multiple touches are required to drive maximum compliance. A proactive, multichannel approach to drive compliance is critical to a statement audit — including the ability to communicate and exchange documents in a manner preferable to the supplier, which might include email, fax, postal mail, phone conversations and/or an upload to a shared database. Technology can also help track the results of the various forms

4) Proactively identify accounting anomalies and root causes. Visibility into transactions and credits across your supplier base can identify accounting anomalies that occur after a transaction is settled. For example, products returned for credit after a three-way match (when the purchase order, the receipt and the invoice are examined for an exact match in quantity and price ordered, received and invoiced) will be caught by a statement audit. Or, you may find the issue originates from a hole in the process, such as a breakdown in how a store handles paperwork regarding returns of merchandise to a supplier. Without increased visibility, many of these

opportunity. Technology and automation have enabled statement audits that can reach out to the breadth of a company's supplier population to request and analyze AR data, resulting in significantly higher statement claims than those from traditional approaches. AP professionals from major companies across all industries are discovering that statement audits not only find more dollars for their companies on an ongoing basis, but they are far less intrusive on their organizations.

Traditional audits, which deliver a review of a company's AP records, complement the comprehensive statement audit process. Together they perform a full review of both AP data and the AR records of a company's
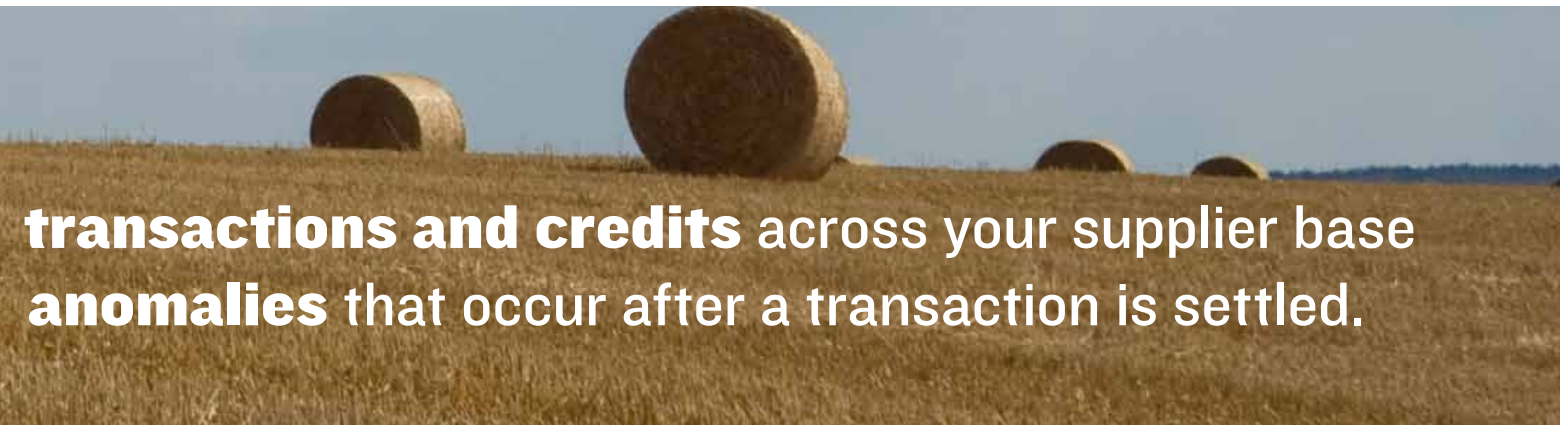
transactions and credits across your supplier base
anomalies that occur after a transaction is settled.

of communication so you can use the best method going forward for each situation. For instance, it may be valuable to know that a supplier responds immediately to a fax, but that it will take three weeks or more to respond to phone or postal mail.

3) Use technology to capture and validate supplier statements. With the mass volume of outreaches, statements, supporting documents and verifications involved in a statement audit, technology is essential to correctly track and manage the process. Technology can ensure there is an easy way to analyze and verify information sent to and received from your suppliers through an integrated, two-way system.

challenges would likely go unnoticed for an indefinite period of time.

5) View statement auditing as an ongoing process, not a project. Transactional errors with suppliers occur every day. A statement audit helps find anomalies that your organization does not resolve by the end of the billing cycle. Identifying and resolving issues on an ongoing basis, rather than on an annual or biannual basis, helps to maintain better processes and uncovers more money left with your suppliers.

The Bottom Line — Audits Are a Best Practice

By their nature, traditional AP audits overlook a significant recovery

suppliers. Executed successfully, these combined audits can yield impressive results; in some cases, they could theoretically double the recovery dollars for a company.

If your company is considering a new recovery auditing initiative, you haven't seen the results from your current recovery audit provider or if you simply want to tap into the additional pool of credits in your supplier base, you owe it to your company to implement a comprehensive statement audit as part of the process. **ISM**

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