Maximizing Statement Audit Results
Implementing Best Practices to Drive Fast, Continuous Credit Recoveries

We recently conducted an interview with Sherry DePew, V.P. of Account Management at Lavante and former Director, Shared Accounting Services at Boise Cascade to better understand more about how to conduct the most successful statement audit process. Here, Sherry explores issues of the impact of credit aging on statement audit recoveries, the different types of credits captured, and how without a statement audit process, these credits can be lost over time.

How does a statement audit differ from a traditional recovery audit?

The recovery industry started before the deployment of ERP systems, and duplicate payments were the most significant pain point. The recovery audit practice involved extracting mountains of internal data – AP, GL, and purchasing data – to uncover anomalies that could lead to recoveries. During this process, there is typically a very limited statement audit process performed on the top 10-20% of a company's supplier base. A true statement audit focuses 100% on the supplier side, looking not at internal records but rather the supplier data. And, because a statement audit analyzes a different data source, it uncovers very different pools of credits that would be missed without this type of review.

Why doesn't the traditional recovery audit include all suppliers? Is there recovery opportunity in the lower ranks of the supplier population?

There certainly are credits sitting out there with lower-spend suppliers, but with the highly manual processes used in traditional recovery audits, it is simply not practical to include all suppliers. With thousands of suppliers, and numerous AR aging reports to consider, each of which can be hundreds of pages, technology is a critical requirement to manage a comprehensive statement audit. Lavante records indicate that over 60% of the recovery opportunity actually comes from the lower 80% of the supplier base.

What technology is required to perform a comprehensive statement audit?

First, the technology must support a way for companies to seamlessly connect to all of their suppliers. And, it must provide a means for these suppliers to easily send back to you the required data, along with a database so all of the data can be archived and analyzed over time.

What types of results and credits can a company expect to receive from a statement audit that would be missed in a traditional recovery audit?

While traditional recovery audit firms find only 5-10% of their recoveries from statements, Lavante focuses 100% on the statement side, so we consistently deliver magnitudes more credits to our clients. And where traditional recovery audit recoveries are based on transactional errors around payment and system errors, statement audits instead look for post-settle issues, which simply can't be identified from internal documents. For example, if merchandise is returned after it has been paid for without the appropriate RMA and/or RTV processed, the transaction will have no internal records, and thus missed in a traditional audit. Another example is when an item is not billed correctly, or perhaps tax was included for are a resale company. Again, this type of error can only be caught with a statement audit.

How often does a company need to look at statement records? It sounds like it is more of a continuous process vs. a point-in-time project.
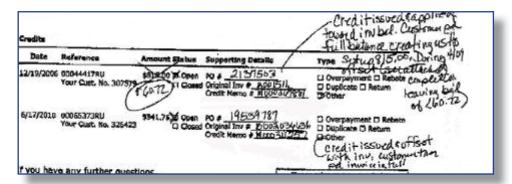
It is absolutely a continuous, rolling process. First and foremost, you want to drive cash back to your bottom line as quickly as possible. If you perform a statement audit as part of a traditional recovery audit, it usually occurs on an annual basis, so potential credits are not identified and paid out in a timely basis. Secondly, an on-going process uncovers errors and issues in a timeframe that allows you to take corrective actions to deal with the problem right away and eliminate future credit issues.

Consider the example of the improperly tracked return. Depending on the statement audit aging time frame this error would be caught quickly – within 120 days – so you could fix the problem immediately.

Statement audits act as a safety net that sit 90-120 days behind a company's internal processes. This time gives your internal processes a chance to catch the errors, but the statement audit then will kick in to deliver credits that have aged to a point when, statistics prove, they will not be caught. Data that we have collected over tens of thousands of audits demonstrates that after a credit ages to 105 days there is a less than 5% chance that the customer will find this credit.

What happens to these older credits?

There are many ways a supplier can get "creative" with credits, using them for other purposes. In the example below, the supplier notes on the credit verification that the "credit issued applied toward inv. balance..." The problem is that the invoice may not be approved for payment or be in dispute. If the invoice is not in dispute the company has a Purchase Order and a receiving records that will continue to accrue every month because there is no invoice to clear it. Either way, this "creative" practice causes problems, and the credit is not received.

What is a best practice credit aging time frame a company should apply to a statement audit process?

90 – 120 days is the typical range we recommend at Lavante. Many of our customers begin with a longer time frame, of up to 12 months, but this changes fairly quickly. As part of our standard process, our account managers work closely with our customers to analyze credits identified at 90 days which are then compared to those present at 120 days. The vast majority of these credits will still be there at 120 days. This gives our customers the confidence to accelerate the rolling time frame closer to 90 days so they can bring in that revenue faster and quickly identify root causes to issues so future credits are eliminated.

For More Details

Contact us today to find out how Lavante can help you implement a comprehensive statement audit process at your company.

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