THE SEVEN SINS of RECOVERY AUDITING

By Karen Kroll

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The seven deadly sins can be found everywhere in daily life. Wrath, greed, sloth, pride, lust, envy, and gluttony can be seen in the news, while walking down the street, and even at work. According to some religious traditions, leading a life free of these sins puts you on the path to eternal happiness and enlightenment.

While committing one of the sins in the field of recovery auditing won't lead to eternal suffering, it can cost your company money and reflect negatively on your job performance. In an effort to help you avoid such a fate, we've identified the seven most common and costly recovery auditing mistakes here:

1. Failing to clarify the scope and time frame for the audit at the outset.

Before the audit recovery team even opens the books, you'll want to outline the audit's goals and parameters. For instance, you should identify the units and divisions the audit will cover, as well as any that it should stay clear of, and make sure that everyone involved understands the difference. Similarly, you'll want to decide before the audit gets underway whether certain vendors will be excluded from the audit's parameters. In addition, setting a schedule and time frame helps ensure that the auditors tailor the scope of their work to the allotted time.

Overlook this step and you run two major risks: In the worst instances, your auditor may resent having portions of the audit removed or inserted from scope after allocating time and resources. In addition, "project creep" is likely, as your recovery firm scrambles to adjust to any changes they are forced to make in the scope.

2. Neglecting to establish an audit work-flow.

To ensure that the audit is as effective as possible, it helps to establish a point of contact within your firm. This person can act as the front line in dealing with any questions or problems that arise. He or she can also determine when an issue should be escalated, and who to bring into the situation.

Conversely, conducting an audit without a single point of contact almost ensures that your third-party audit firm will end up having to run any issues and decisions by multiple people within your organization. This eats into the time the firm could better use working on more productive tasks.

3. Failing to communicate with your vendors before acting on a credit.

Soliciting vendor input before assuming that a credit is owed to you is always a good idea. The majority of your vendors and suppliers, when approached about a potential credit, act in good faith and are typically willing to supply documentation to confirm or dispute the open status of a credit.

Failing to communicate with vendors prior to acting on credits increases the possibility that you will take a credit in error which, depending on the size of the credit, can strain the relationship with your vendor. In addition, the work to communicate with vendors after the fact and reinstate credits is cumbersome and time-consuming.

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4. Pushing your audit scope too far into the past.

Audits scopes are often pushed many years into the past so that clients can prevent any potential overlap between their recovery auditor's findings and what they may be working on internally. The logic being that the client should not pay fees on what they may find on their own. In reality, there is little duplication between companies and their audit firms. Consequently, less attention should be placed on avoiding the fees of overlapped claims and more attention should be based on maximizing the recovery effort.

Making the audit scope current improves the time value of money a great deal and increases the cooperation you can receive from vendors that, as a common practice, will remove aged credits from their AR records after a period of time.

5. Ignoring the lessons and recommendations of your audit partners.

Nearly every audit team has seen a range of audit processes – good, bad and ugly – and will be able to identify areas in your own payment processes that can be improved. It makes sense to tap into their expertise. Even if you eventually decide that some of the recommendations aren't right for your firm, you'll have learned much just from reviewing and evaluating your own processes.

On the other hand, overlooking the wealth of information that your audit partners can provide almost certainly means maintaining less-than-optimal processes. What's more, someone else in the organization may end up bringing in additional consultants – probably highly paid – in an attempt to re-work the processes.

6. Ignoring the need to improve your processes.

After investing the time it takes to support a recovery effort, it can be tempting to continue with internal processes that are prone to error, reasoning that any payments that slip through the cracks will be caught in your next year's recovery process. If that's the case, why invest the time and energy it would take to improve the process?

While this thinking may seem logical at the outset, you're still best off reducing the amount to be recovered. That way, you'll be able to hold onto more of your money, rather than paying it out and recovering it months later. In addition, your audit fees should decline as your internal processes improve. Both of these will enhance your firm's cash flow.

7. Assuming that a contingency fee is the only way to pay for a recovery audit.

While a contingency fee model is most commonly used for recovery audits, it is not the only approach. A number of vendors also work on a flat-fee model. A flat-fee arrangement can lead to a more effective partnership between your firm and the audit firm, because the audit firm has a strong incentive to work with you to improve your payment and recovery process. In addition, flat-fee arrangements lead to more stability in your expenses.

Conversely, firms that are paid through contingency fees have little reason to take steps to improve your processes, as doing so can reduce their fee income. What's more, by their nature, contingency fees are hard to predict, which can play havoc with your cash flow.

If you can minimize the occurrence of these sins within your own processes, your recovery initiatives will be more effective and efficient, saving your firm money. While this may not lead to eternal happiness, it certainly can make your time on the job more productive and pleasant.

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About Karen Kroll

Since 1994, Karen has been reporting and writing on business, corporate and consumer finance, technology, and workplace trends. Her work has appeared in CFO Magazine, Business Finance, IndustryWeek, TheStreet.com, and Inc. Magazine, as well as a variety of consumer and trade publications. She is a frequent writer and contributor for AP Matters, the magazine produced by IAPP. Check out Karen's latest AP Matters feature, "AP Navigates the Great Recession".

About Lavante

Lavante is helping to educate and promote discussion within the AP profession about the ever-changing and increasingly strategic role of AP within the larger business organization. Throughout the year, we will team up with industry experts to bring you topical and relevant webinars, whitepapers, and articles discussing wide-ranging issues such as: how to turn a recovery audit into a strategic audit for long-term impact; how to manage your vendor file to improve cash flow; and, other procure-to-pay trends and best practices that matter to you, the AP professional.

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