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IAB Solutions LLC – White Paper

Broker Audits 101: What you should know about Broker Audits

There is a growing trend among Consumer Products companies and others, to assign their Sale Brokers, the responsibility to manage the Deductions Resolution process. This is in addition to relying upon them to fulfill their traditional role of selling, promoting and merchandising their products. This practice can make a lot of sense if the proper safeguards are in place.

Paramount in this list of safeguards is the monitoring or auditing of the Brokers' deduction validation process. Placing the deduction resolution responsibility in the hands of the same people that plan, budget and present your promotions to your customers, can be dangerous and may be fiscally imprudent UNLESS you have a method to ensure your company policies and procedures have been communicated and are being followed every day.

Broker Audits are a Win-Win

Broker Audits are one of several key ingredients in a successful Broker / Principle relationship. Nothing can destroy trust and cooperation faster than second guessing and finger pointing in regards to growing deduction balances. Through Broker Audits, you will discover that for the most part your Brokers are hardworking, diligent team members. They are in fact an extension of your company's internal Sales force, the Customer Service group and yes an extension of your own 'Customer Financial Services' group. Accordingly you should hold Brokers to the same high standard that you're internal teams are held to.

Know the Players-

Brokers' offices typically have a Sales function and an Administration function that work together. The Sales side is highly visible and is typically stable, while the staff on the Administrative side is frequently unknown to Principles and they experience a higher turnover rate. Through Broker Audits you will meet the Administrative side and be in a position to judge the quality and level of experience of the staff actually working your deductions.

Areas improved through Broker Audits-

1. *Establish clear understanding of and compliance with Your Company's Finance and Sales policies and procedures.*

Never assume that your Broker knows your companies Deduction Resolution Policies and Procedures. Broker Audits are an effective 'template' for on-going communications. They significantly improve Broker responsiveness to the Credit, Customer Service and the Accounts Receivable functions.

2. *Create 'bulletproof' documentation of Deals, Promotions, and Sales Agreements, as well as valid 'bill-back' spending through the Deduction Clearing process.*

Imaging systems are the leading edge when it comes to documentation, but without your companies clearly spelled out requirements its value is questionable. More than ever complete consistent documentation is the key to protecting your company from invalid deductions and is clearly an area where a Broker should be held responsible.

3. *Cleared Deductions faster while denying all invalid claims.*

Today it's all about balances, how to keep your deduction balances low. Broker Audits help you accomplish this in 3 ways. 1.) Clear valid deductions faster with better staffing, better documentation, better communication; 2.) Collect invalid deductions faster by proving your case faster with detailed documentation. 3.) Reduce incoming deductions, by NOT being a target for retailers who take the path of least resistance when it comes to deductions.

4. *Satisfy Internal auditors and SOX requirement.*

Documentation of Trade Marketing Spending through deductions is just as important as documentation of payments made by check through A/P. In addition, faster resolution of both valid and invalid deductions provides a more accurate picture of Accounts Receivable and Sales Revenue.

Why you should be involved-

Remember when you were hired, you made it your first priority to develop a close relationship with Sales, both in your office and out in the field. So to, it is up to you to become deeply involved and develop a non-Sales relationship with your Brokers. Within most companies using Brokers, managing the relationship is the responsibility of Sales and / or Marketing. Both of these internal functions strive to maximize the effectiveness of your company's promotions and to maximize sales. With this focus it is not hard for some individuals or locations, to inadvertently overlook or relegate to secondary importance the deduction resolution process. Involvement with Broker Audits will solidify your relationship with the Broker's Administrative function which acts as an extension of your CUFFS group. This closer connection will help you maximize the effectiveness of your Brokers in deduction resolution.

Developing a Broker Audit Program-

The process of developing a Broker Audit program begins with building support among your upper management. Next you must bring on board Sales Finance / Administration, and finally you must win over Sales Operations. Your goals of: 1.) faster resolution of valid deduction, 2.) improved recovery of invalid deductions and 3.) more accurate and complete deduction and promotion performance documentation are undoubtedly shared by all elements within your company. Certainly, no one would speak negatively about these goals. If 'turf' issues surface they can be overcome by teaming up with Marketing who will appreciate more accurate documenting of Trade Spends and working together with Sales create a shared responsibility for deduction management. Remember Sales would rather be moving product, than shuffling deduction paperwork.

In developing a Broker Audit Program, you need to consider the following:

1. Scale of Program- All Brokers; largest Brokers; Problem Brokers; Problem Customers
2. Frequency of program- Random: infrequent; every year
3. What will be audited-
 - a. Authorization levels are observed
 - b. Documentation maintained
 - c. Contracts in file
 - d. Proofs of Performance available
 - e. Customer claims or invoice in file
 - f. Copy of customer remittance
 - g. Copy of invoice, Sales histories
 - h. Use of Planner to record events, commitments and comments / emails regarding exceptions
 - i. Previous audit points corrected
4. Broker Audit Metrics, will a Scorecard be used
5. Management reporting, who will receive the report
6. Broker follow-up, ensuring that all needed corrections to procedures are put in place.

Necessary 'Tools' for a Broker Audit-

The tools of Broker Audits are the very same tools you use every day to review, analyze, and manage your Accounts Receivable deductions responsibilities. These tools are employed to evaluate the Broker's deduction resolution activities, when conducting a Broker Audit program. These tools include but are not limited to Company Sales Policies, Finance policies and Deduction Management Systems / Event Planners covering the period to be audited. Your policies will serve as your frame of reference for reviewing deduction processing by the Broker and for evaluating and later scoring their performance. Reports that you will need include:

1. Electronic worksheets containing the deductions to be audited. This is your audit sample.
 - a. Settled/Closed Deductions including Closed Post Audit Deductions
 - b. Open Deductions
2. Files (paper or access to electronic images)-
 - a. Settled Deduction documentation

- b. Open deductions - work-in-process, status review
- 3. Accounts Payable check ledger. This is necessary only when checks are issued and made payable to customers.

Rolling out the Broker Audit Program

There are several steps to rolling out a Broker audit program. The first of which is to work with Sales to notify your Broker organization that you will be starting an audit program. In coordination with Sales determine when the audits would be least disruptive to the Broker organization.

Once the timing has been determined plan an Audit schedule and publish it to both your internal sales organization as well as the Broker organization. Specific Broker offices should be informed of their exact audit dates. Provide the office to be audited with a listing of deductions (the sample that you have selected) that you want to “audit”, giving them at least two weeks lead time. This gives the Broker’s Administrative staff the opportunity to pull together the documentation you will need to review, prior to your arrival.

Advanced notice and arriving at the audit site fully prepared are the keys to a successful audit. It is advisable to set up worksheets in advance. They should be as complete as possible, including Event Planner promotion data you will be auditing against. This worksheet provides the tool to record and organize your data for preparing your report to management.

This paper attempts to outline briefly how and why one would approach the task of formulating and conducting a Broker Audit program. If your company uses Sales Brokers to manage and resolve deductions and you don’t already have a Broker Audit program you should seriously consider Championing the idea. It will pay dividends immediately and far into the future.