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Cost-Savings Corner: Understanding Auditing Classifications

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Whether you use a third-party audit company to monitor your weekly carrier invoices or have built a homegrown system to do it internally, it is important to understand the various degrees of auditing classifications in order to fully understand how you can achieve savings beyond those gained through negotiated rates.

Degree 1 – Service Failures

Service failure auditing is one of the most common classifications in the parcel auditing sector. Service failures are some of the lowest-hanging fruits, which is why service failure auditing is a function that almost all third parties and internal auditing departments perform. Service failure audits require tracking all packages in order to ensure that the carrier's commit times, based on service level and zone, are being met. Some typical service failures are: late train or plane, improperly routed, left in carrier hub/facility, and weather. Unless service failures occur due to weather delays, and unless a shipper is ineligible for refunds due to a unique agreement, shippers can obtain the full cost of the majority of late packages.

Degree 2 – Beyond Transportation Charges

Surcharge and accessorial auditing is the second most common auditing classification. Surcharges and accessorial charges are defined as additional charges assessed by the carrier beyond the cost of the freight movement, or beyond transportation charges. A surcharge is assessed at the time of manifest, which means that the shipper can anticipate the charge. An accessorial charge is assessed in transit or when the package is delivered, which means that the shipper is often times unaware that the charge will occur. Accessorial charges can be particularly detrimental to shippers that charge their end customers for freight, as all additional charges assessed after manifest have to be absorbed by the shipper.

Fortunately, calling into carrier-specific call centers and requesting refunds can enable you to reverse the majority of erroneously charged accessories.

Degree 3 – Rates; Tiers/Thresholds

A rate audit identifies the areas in which a carrier is incorrectly invoicing charges based on the carrier's published rates and on company-carrier agreements.

Degree 4 – Unauthorized Shipments

Unauthorized shipment audits are performed in order to determine which shipments were billed to a shipper's account number collect or via third-party billing without the shipper's authorization. Unauthorized shipments can occur unintentionally when a supplier starts shipping a new order but forgets to toggle out of your account number, or intentionally—if your account number gets in the hands of the wrong person.

It may be relevant to note that in order to obtain refunds for shipments billed by a third party without authorization, companies are usually required to interact with their auditing services provider on a regular basis, perhaps weekly, throughout the first stage of the auditing process. Initially, the company is usually asked to provide a list of authorized vendors to the auditing services provider. The authorized vendor list typically grows during the first few weeks of an unauthorized shipment audit as the auditing services provider provides lists of third-party billers to



the company as new shipping data comes in. Eventually, communications between the company and the auditing services provider lessen as the majority of authorized third parties are accounted for and the majority of unauthorized third parties are weeded out.

Degree 5 – Damaged and Lost Shipments

Streamlining the damaged and lost shipment claims processes can enable the shipper to request that the carrier send a monthly average rebate instead of relying on the shipper to file individual claims. When individual claims do not have to be filed, the shipper saves time and money.

Knowing a little more about the different auditing classifications can enable you to get a better idea of how your current invoices are being monitored and what improvements could be made to the monitoring process. If your current parcel auditing services provider is unable to provide deep-level auditing services or doesn't have experience in providing such services, or if your internal auditing department does not have the time to devote to deep-level auditing, now may be the perfect time to put your auditing needs out to bid.

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