

UNAUTHORIZED DEDUCTIONS GREEN PAPER

Issue Statement

Authorized deductions are legitimate everyday business transactions that can be an efficient and effective means of transferring funds between trading partners.

Unauthorized deductions are non-productive and are becoming more commonplace and more complex. They may be legitimate as long as supporting documentation can be produced.

The result is an increase in non-value-added expenses for the time and resources required reconciling and reaching agreement on these unauthorized deductions to the satisfaction of both trading partners.

Unauthorized deductions are ultimately subject to agreement between trading partners. This paper recommends guidelines that may be used to resolve issues that arise from the application of such items by business partners.

Issue Analysis

The Canadian ECR Deductions publication defines deductions as the difference between the amount of a manufacturer/supplier's invoice and the amount of the actual remittance.

The following attributes have been identified as key contributors to *unauthorized deductions* when reviewed across the entire supply chain – from order to cash:

- Failure to maintain accurate records for current prices and unit of measure;
- Failure to prepare orders to customers' specific needs – documentation, tie-high, lead-time, labeling, etc.;
- Order preparation defects – pick errors, shortages, damages;
- Shipping defects – damages, lost freight, late shipments, missed deliveries;
- Receiving defects – late acknowledgement or notification of shipping and picking defects, inaccurate receiving, “after the fact” claims;
- Payables defects – failure to include supporting documentation with deductions which may be properly authorized deductions; and,
- Taking early payment discounts that are unearned.

Because the deductions are unauthorized and unanticipated, a large amount of managerial resources are required in the resolution process. When deductions are authorized and properly documented, clerical resources can often deal with them.

Communication between trading partners on unauthorized deductions is frequently difficult.

Goals

To minimize the non-value added expenses including time and other resources that arise from unauthorized deductions.

Recommendations

There should be some protocol for handling deductions in place between trading partners. The recommendations are as follows:

- 1) Communication
 - a) Trading partners should develop and implement a formal protocol, account by account, to resolve unauthorized deductions, including supporting documentation;
 - b) Claims and documentation should be provided on a timely basis;
 - c) Follow up to claims should be facilitated; and,
 - d) Partners should heighten the awareness of the challenges generated by unauthorized deductions. This should lead to a reduction of them and a higher focus on prompt resolution.
- 2) Timing of claims
 - a) Claims for unauthorized deductions should be made within 2 years. 2 years may occasionally be necessary due to audits that can take place up to 12 months after the close of a fiscal year-end;
 - b) Unauthorized deductions may be taken immediately if they:
 - i) Relate to transactions less than 6 months old; and,
 - ii) Are properly documented.
 - c) Deductions for short shipments may be deducted immediately up to 6 months after the shipment if they are properly documented; and,
 - d) When deductions relate to a transaction between 6 and 24 months old, the supplier should receive notification and documentation 90 days in advance before the deduction is applied. This will allow for investigation, audit and discussion.
- 3) Unauthorized deductions relating to transactions over 2 years old should not be permitted. Any such issues should be resolved by negotiation between the parties before funds are deducted.
- 4) Transport company involvement
 - a) Carriers must be accountable. To be accountable, they need timely documentation of damages, short shipments and non-compliance such as late deliveries.

- 5) ECCnet and EDI solutions
- a) The CAPDM Board of Directors has reviewed the alternatives and supports ECCnet as the preferred option for data synchronization. Manufacturers can reduce costs and improve efficiencies and ultimately reduce deductions by organizing their data in the 832 price / sales Catalogue format that has been identified. A number of pharmacy distributors have indicated their intention to use ECCnet and you should discuss this approach with your trading partners. With ECCnet the one-time profiling of customers ensures data is synchronized to your trading partner for every transaction, and the single data entry point ensures data integrity.
 - b) Manufacturers should identify an ECCnet catalogue captain in their company and then register with ECCC. The second step is to meet with the pharmacy distributors and identify opportunities to access this common database through a mutually agreed upon profiling selection.

Evaluation Criteria

To aid in implementation, the CAPDM pharmacy distributors are encouraged to utilize the evaluation criteria chart below. Once implemented, the evaluation chart can be used to measure the performance of a manufacturer in regards to unauthorized deductions.

Unauthorized Deductions Green Paper Evaluation Criteria

	Unacceptable		Acceptable		Best Practice
Unauthorized Deductions	No unauthorized deductions are permitted. All issues must be submitted for investigation and credit will be issued if authorized. No commitment to specific timeframe for resolution		Limited deductions permitted with prior agreement and supporting documentation. All other claims must be submitted for approval. No commitment to specific timeframe for resolution.		All issues and claims must be submitted with supporting documentation. Commitment to resolve within 30 days and permission to deduct at that time.
	Comment/Action:				