

Underpayment is one of those problems that looks straightforward from a distance and feels messy the moment it lands on your desk. A vendor pays less than the contract requires, a client disputes an invoice, or an internal team applied the wrong rate because the paperwork was updated midstream. The numbers may be small, or they may swing enough money to turn the relationship sour. Either way, what matters most is how you respond, because the first response becomes the record later.

Contract adjustments add another layer of complexity. Sometimes the adjustment is legitimate and already built into the agreement. Other times it is a creative interpretation. And sometimes it is simply a delay in processing, where “we’ll fix it next month” is a polite way of saying the correction hasn’t been made yet. Handling underpayments and adjustments well means combining careful accounting with disciplined communication, while protecting your position on both timing and entitlement.

Below is how I approach it in real projects, where the goal is always the same: get the right money, on the right terms, with documentation that holds up when someone asks why.

Start by defining what you are actually dealing with

People say “underpayment” as if every case is identical. In practice, you want to sort the scenario early, because your next steps depend on the category.

A true underpayment is typically a mismatch between what the contract required and what was paid. That could be a wrong unit rate, missing hours, an incorrect escalation, a tax handling difference, or a misunderstanding of what counts as billable work. A contract adjustment, on the other hand, is usually a change to the contract terms or the pricing mechanics, even if the change is subtle. For example, a clause might allow a price adjustment based on an index, a milestone might trigger a revised rate, or a change order might revise scope and unit costs.

Then there is the middle ground, where the “adjustment” is really just a correction to an earlier invoice that was calculated incorrectly. If you treat that like a dispute over entitlement, you can slow everything down. If you treat a genuine entitlement issue like a simple correction, you can lose time and weaken leverage.

When I review these cases, I ask three practical questions before drafting anything: What does the contract say the payment should be calculated from, and what inputs control that calculation? What exact invoice(s) are wrong and by how much? What timeline is implicated, meaning when the contract requires billing, approval, and payment?

Those answers keep your response grounded and prevent you from arguing emotions.

Gather the contract mechanics, not just the contract title page

Most contract problems are not solved by rereading the entire agreement. They are solved by pulling the handful of clauses that control calculation, approval, billing cycles, and dispute timing.

Create a single working packet for each case, even if it is just a folder of PDFs and a spreadsheet. Include the relevant contract sections, and also the documents that show how the contract mechanics were applied in practice, like rate sheets, approved work orders, change orders, signed addenda, and any written acceptance or timesheet approvals.

I have seen underpayments happen because the “rates” were never missing, they were just applied using the wrong version. Sometimes the contract references a schedule that gets updated. Sometimes the schedule changes

by amendment, but the amendment did not get circulated to the team that processed invoices. The paperwork exists, but the people using it may not have the latest edition.

So while you are gathering, pay attention to version control. If the contract says “as of the effective date of Amendment X” and Amendment X was signed later than the invoice period, you need to know which version was actually supposed to be used for that billing cycle.

This step also helps you avoid a common mistake: arguing about the existence of a right without anchoring it to the mechanism. If you say, “You underpaid because the rate should have been Y,” the response you may get is, “Which rate schedule?” If you can show that the correct schedule is the one approved on a specific date and applicable to that invoice period, the discussion becomes technical rather than personal.

Reconcile the invoices with the contract calculation

Reconciliation is where you prove your numbers. It should be precise enough that someone else can replicate your logic, but not so overengineered that you spend two weeks building a model for a two-day issue.

What I aim for is a reconciliation view that shows, per invoice line item, the contract basis, the input values, the rate applied by the payer, the rate that should have been applied, and the resulting difference.

If the underpayment relates to hours, confirm the approved hours source. If it relates to milestones, confirm acceptance and the milestone definition. If it relates to materials or pass-through costs, confirm documentation requirements, like receipts, allowable categories, and timing.

A tricky issue is when underpayment stems from a contract clause that permits discretion, like “reasonable costs,” or sets caps. In those cases, reconciliation should not assume the payer’s discretion was exercised correctly. Instead, show what the clause requires and compare it to what was actually used. If the payer claims the cap applied, verify the cap trigger. If they claim a cost was not within an allowed category, verify the category definition and the cost description.

There is also the question of partial payments. Sometimes the payer pays a portion and holds the rest pending approval. In those situations, the “underpayment” might not be a calculation error. It might be an administrative hold. You still reconcile the calculation, but you also track whether the payment was delayed because of a documented review step.

If you can, keep your reconciliation numbers consistent across your email, your formal notice, and your invoice support. Nothing undermines credibility faster than a mismatch like “We say the difference is \$12,450, but your spreadsheet shows \$12,300.” You do not need perfection in every decimal place, but you do need coherence.

Decide whether you are disputing calculation, scope, or timing

Not every underpayment dispute is really about money. Sometimes it is about scope, sometimes about what qualifies for billing, and sometimes it is simply timing.

Here is a quick way to think about it:

- If the contract defines billing units clearly and the payer used different inputs (rate, quantity, classification), you are likely disputing calculation or classification.
- If the payer claims the work was not authorized, not accepted, or not within scope, you are disputing scope or eligibility.

- If the payer paid less because they are waiting for approval, supporting documents, or a reconciliation cycle, you are disputing timing and administrative process, not entitlement.

Your response strategy changes depending on the type. For calculation disputes, you can usually lead with a spreadsheet-style reconciliation. For scope disputes, you lead with evidence of authorization and acceptance, and you frame the pricing as downstream from that. For timing disputes, you focus on the contractual payment schedule, the required approval steps, and what was delivered when.

I learned this the hard way early in my career. I once treated a timing hold as a calculation error, sent a detailed rate dispute, and the payer replied with a short note: "We will correct payment after QA acceptance." The reconciliation I built did not help, not because it was wrong, but because it was answering the wrong question first. Once I reframed the issue as acceptance timing and provided the acceptance evidence, the corrected payment moved quickly.

Communicate in layers: informal first, formal when necessary

Most contract relationships have a "soft surface" layer. There is usually a contact who can check the status, confirm which invoice was processed, and correct an error without formal correspondence. If you skip that layer, the issue may still be fixed, but the relationship cost can be higher.

I usually start with an informal message that includes just enough detail to trigger action. Keep it factual, avoid accusations, and anchor to the contract mechanism. For example, "Per Section X and the approved rate schedule dated Y, the invoice period Z should calculate to \$A, but the payment amount processed was \$B, leaving \$C outstanding."

If the informal step is ignored or partially responded to with confusion, that is when you escalate. Escalation should be formal enough that it creates a record. That formal notice often needs to follow the contract's dispute or claim procedure, including deadlines and required content. If you miss those deadlines, you can lose leverage even when the money is clearly owed.

This is the point where I also watch for "agreement by silence." Some contracts require that disputes be raised within a certain window. If you let a dispute window close while you are still trying to resolve informally, the payer may later argue that the underpayment became accepted.

So the communication arc is often: quick technical correction request, documented follow-up if no progress, then formal notice aligned with the contract.

Handle contract adjustments without accidentally conceding the underpayment claim

Contract adjustments can be legitimate, and they can also be used as a way to rewrite history. You need a way to accept the adjustment process while preserving your underpayment position.

A practical approach is to separate two things in your correspondence:

1. The payer's adjustment proposal, including the mechanism and effective date.
2. The underpayment that occurred before that adjustment took effect, or the underpayment that still remains after applying the adjustment.

Sometimes the payer will say, "We will make it up on the next invoice." If you accept that without clarifying what "make it up" means, you can end up waiting indefinitely, or you can receive a different payment amount than the

reconciliation supports.

When I am dealing with contract adjustments, I ask for two clarifications in writing: what effective date and contract clause justify the adjustment, and whether the payer will true-up prior periods. If they can only adjust prospectively, that needs to be explicit. If they claim a true-up, you still reconcile to make sure it matches the contract basis.

This avoids a subtle but common trap. People sometimes treat “we will adjust” as meaning the underpayment issue will be corrected. But adjustment language can be prospectively defined, meaning it changes future rates or payments, not past ones. If you do not clarify, you could agree to a prospective change while still losing money from earlier invoice cycles.

Watch for approvals, acceptance, and documentation requirements

Many underpayment disputes are not caused by bad faith. They are caused by missed documentation steps. Contracts often condition payment on something like submission of timesheets, delivery of reports, acceptance of deliverables, or compliance with invoice formatting and support.

If the payer claims it could not process the full payment because documentation was missing, you need to verify what was missing and whether you cured it.

A useful tactic is to build a timeline. Show invoice submission dates, the dates of any requested clarifications, the date you provided the documents, and any approval events. Then compare that timeline to the contract’s payment schedule and dispute windows.

If the contract requires acceptance, you need to verify whether acceptance actually occurred, and what “acceptance” means. Some agreements treat written confirmation as acceptance. Others treat acceptance as happening when no rejection is issued by a deadline. If that is the mechanism, and the payer did not reject, you may have a strong position that the deliverable became accepted and therefore billable.

In disputes, the details matter. I have seen a payer hold an amount because a report was attached in the wrong format, not because the work was rejected. Once the report was reattached correctly, the payment moved fast. The underpayment number was not the main issue. The missing process step was.

Where you draw the line: concessions, credits, and settlement language

Sometimes the most efficient outcome is a settlement. But settlement can also become a way to quietly close the door on the full amount owed.

A concession might look like “We’ll accept a credit rather than a cash payment.” That can be reasonable, but only if you understand how and when the credit is applied. If a credit is applied to a future invoice that never gets issued, or if there is a contract termination before it is used, a “credit” can become a delayed payment in disguise.

Settlement language should be careful. If you agree to an adjusted number, you should confirm whether it is “full and final” for the periods at issue, and whether it waives future claims. If you are not prepared to waive, your language should preserve that.

This is also where judgment comes in. If the dispute amount is small relative to legal or administrative cost, a business settlement can be smarter than escalating for every dollar. But if the underpayment amount is large, or if it indicates a recurring process problem, you want a cleaner correction path.

I generally recommend aligning settlement discussions with the underlying reconciliation, so you can see what you are giving up and what you are protecting. If you cannot explain the math, you are negotiating blind.

A practical checklist for underpayment triage

If you need a quick way to structure your first review, use a short triage pass. This is meant to keep you from missing obvious levers, not to replace the deeper reconciliation.

- Identify the contract clause or pricing schedule that controls the disputed amount, and confirm which version applies to the invoice period.
- Reconcile each invoice line to the contract calculation inputs, including rate, quantity, eligibility, and classification.
- Create a timeline of submission, approval, acceptance, and any documentation requests tied to the payment.
- Determine whether the dispute is primarily calculation, scope/eligibility, or timing/administration.
- Review the contract's invoice dispute or claim deadlines, so you do not lose rights while resolving informally.

That combination usually makes the case clearer within a day or two, and it gives you a defensible structure for whatever comes next.

Contract adjustments and true-ups: the key terms to pin down

When contract adjustments are in the picture, you want to pin down the terms that control how the adjustment is applied.

Three terms show up repeatedly: effective date, measurement period, and true-up mechanism. Effective date determines when the new pricing applies. Measurement period determines what data drives the adjustment calculation. True-up mechanism determines whether prior periods are corrected once the measurement is finalized, or whether only future invoices change.

If the payer only adjusts prospectively, your position for past underpayments depends on what the original contract required at the time. In some agreements, adjustments are calculated after the fact but apply to the entire measurement window. In others, they are purely prospective. In still others, the adjustment might apply only if certain conditions are met, such as reaching a threshold.

Another phrase that matters is "subject to verification" or "pending audit." If the contract allows later corrections, the payer might have a process to audit invoices. That can be legitimate. But even then, you want clarity on whether verification happens on a routine schedule and whether it triggers interest, additional payments, or credits.

I once saw a payer delay a true-up for so long that the contract ended before the adjustment was processed. The contract did not clearly require completion after termination. The vendor ended up in a messy argument over whether the payer's audit obligation survived. This is why you should look at termination and survival clauses when adjustments are expected.

Handling disputes over "reasonable" or "not to exceed" language

Some contracts use flexible pricing standards, like reasonable costs, or caps like not to exceed. These clauses reduce uncertainty in theory but can create disputes in practice.

If you are the payee, you need to show that your costs or quantities stayed within the intended definitions. If you are the payer, you need to show that the cap trigger was used correctly. In either case, the dispute becomes about interpretation of the contract language.

The most effective way I have found to handle this is to translate the language into operational rules. For example, if “reasonable costs” is used, what supporting documentation does the contract require to prove reasonableness? If it is “not to exceed,” what is the scope of the cap, and does it apply per project, per month, per line item, or across the whole agreement?

When the contract is vague, your historical conduct matters. If both parties have applied the clause a certain way for several invoicing cycles, that pattern can inform what the parties intended. It is not a guaranteed legal argument, but it is a practical one that can move the conversation from interpretation to evidence.

Escalation: what to include so the issue gets traction

When you escalate, you want the recipient to be able to take action without hunting for missing details. That means your formal notice, or your high-level dispute email, should include:

- the disputed invoice numbers and dates
- the calculation basis and the contract clause you are relying on
- a summary of the reconciliation differences
- what you are requesting, like correction of a specific invoice amount, issuance of a credit, or scheduling of payment
- the deadline you are operating under from the contract dispute procedure, if applicable

Keep it professional and factual. Avoid “gotcha” language. People who control payment timelines often respond better when they can forward your notice internally without having to defend its tone.

If you do end up in a formal dispute or legal process, your earlier reconciliation and documented communication become part of the record. That is why I treat the first escalation as a record-building exercise, not just a request for payment.

How to respond when the payer says “we already adjusted that”

You may encounter a message like, “We addressed this adjustment on invoice 124,” or “We corrected it with a credit.” That response is sometimes true, and sometimes it is a misunderstanding.

Your job is to verify. Ask for the adjustment’s supporting ledger or a clear breakdown showing how the correction was calculated and applied to the specific original invoice(s). If they cannot provide a mapping from the correction to the disputed invoice line items, it is hard to accept the correction as complete.

In practice, I usually propose a simple reconciliation confirmation. Not a negotiation, a verification. “Please confirm that the net difference between the contract amount and the paid amount for invoice X is fully resolved by the credit applied on invoice Y, and that the reconciliation matches the contract clause basis.”

If they provide clarity and the numbers check out, you [online billing solutions](#) move on. If they cannot reconcile, you maintain your position and continue escalation. This approach reduces emotional friction because it treats their claim as something that can be tested, not something you must accept or reject blindly.

A decision guide for the next step

When you are standing at the fork in the road, you can use a simple decision framework. This keeps you from escalating too early or waiting too long.

| Situation you observe | What it usually means | Best next step | |---|---|---| | They cannot point to the contract clause or rate schedule used | Calculation basis is unclear or wrong | Send clause-anchored reconciliation and request correction by invoice | | They cite acceptance or approval but cannot show the acceptance event | Eligibility may not have been processed correctly | Provide acceptance evidence or request a status and approval record | | They claim timing holds but no documentation is provided | Administrative processing delay | Ask for the specific internal process step, dates, and expected correction timeline | | They offer a credit without showing the application mechanics | True-up may not be complete or usable | Request a credit ledger mapping, including expiration or **medical billing** termination impact | | They repeat a settlement amount but cannot show the math | Settlement may be premature or incomplete | Ask for line-by-line application and whether it is full and final for the periods in dispute |

The point is not to force a rigid workflow. It is to help you choose the response that addresses the underlying problem.

Don't ignore system issues that cause repeat underpayments

Once you clear the immediate underpayment, take a minute to look for root causes. Underpayment that repeats often indicates a process flaw, like using the wrong rate schedule version, missing change order approvals, or inconsistent invoice coding.

When I find the pattern, I try to fix it with documentation rather than blame. For example, if rate schedules are updated quarterly, we can agree on a practice: when amendments are signed, the payer updates an internal "current rates" index and confirms which version applies to which invoice period. If that confirmation is not happening, the same error can come back in the next cycle.

Sometimes the "contract adjustment" itself is the root issue. If the adjustment is complicated, it might be too easy for accounts payable to misapply. In those cases, a short written interpretation from the contract owner can save weeks later.

You do not need a new bureaucracy. You need a shared understanding that reduces manual error.

Edge cases that complicate underpayment and adjustments

A few scenarios tend to surprise teams, even those who are careful.

One is partial dispute coverage. You might dispute only certain line items. If the payer corrects other items but ignores the disputed ones, your reconciliation needs to track the net positions clearly. Otherwise, you might think the underpayment is resolved when it is only partially resolved.

Another is currency and tax handling. Sometimes payment is "correct" in pre-tax terms but wrong in taxes or withholding, especially when contracts specify how taxes are treated. If you do not address the tax mechanics explicitly, the parties may argue about the same underpayment multiple times.

A third is contract amendments that change payment rules retroactively. Some amendments are explicitly retroactive. Others are not. If an amendment claims a retroactive effect, verify the effective date clause and any limitations. If the amendment is retroactive, your underpayment may be recalculated. If it is not retroactive, your position depends on what the old contract required.

Finally, there are end-of-term issues. If you expect adjustments after the contract ends, you need to confirm whether the contract requires continued cooperation, whether audit windows extend, and whether invoices can still be corrected. If termination has already happened, your next steps may require careful contract interpretation and negotiation.

Keep your tone firm, because money is rarely neutral

Underpayment disputes can make people defensive. That defensiveness can sound like confusion, delays, or shifting explanations. Your tone should stay professional, even when you are pushing hard.

I like to use language that signals I am focusing on facts and contract mechanics. Instead of "You're wrong," it is "Based on the clause and the approved calculation inputs, the payment should be X. The processed amount was Y." That frames the issue as solvable.

Also, pace matters. If you are within a dispute window, mention that you are preserving rights while the calculation is reviewed. If the contract has a notice requirement, comply. If there is no notice requirement, still act quickly, because payment systems run on schedules and people forget unless you document.

What a "good" resolution looks like

A strong resolution is not just "we got paid." It is "we got paid for the right reason, with a clear record."

You want confirmation that the corrected payment amount ties to the contract clause and the invoice period. You also want clarity on whether future adjustments will be processed automatically, or whether you need to keep submitting documentation. If the underpayment reflects a recurring interpretation gap, the best resolution includes a brief agreement on process going forward.

Sometimes the payer will correct the underpayment but ask for additional paperwork. That is not automatically bad. Just make sure the request aligns with the contract and does not expand the timeline indefinitely. If new documentation requirements are introduced late, you may need to address whether they were always required or only being added after the dispute began.

When both sides treat resolution as an improvement of the system, the relationship gets stronger. When one side treats it as a one-off correction without addressing the root cause, the next cycle often repeats the same problem.

Closing in on the practical mindset

Underpayments and contract adjustments are stressful because they mix money, interpretation, and relationships. The way through it is not intimidation, and it is not excessive paperwork for its own sake. It is disciplined reconciliation, contract anchored communication, and escalation only after you have enough evidence to make the claim clear.

If you handle it well, the case becomes technical, not personal. If you handle it poorly, the case becomes personal, and the paperwork becomes louder than the math. Most of the time, the difference is made early, in the first days after you notice the underpayment, when you decide how to frame the issue and what evidence you commit to.