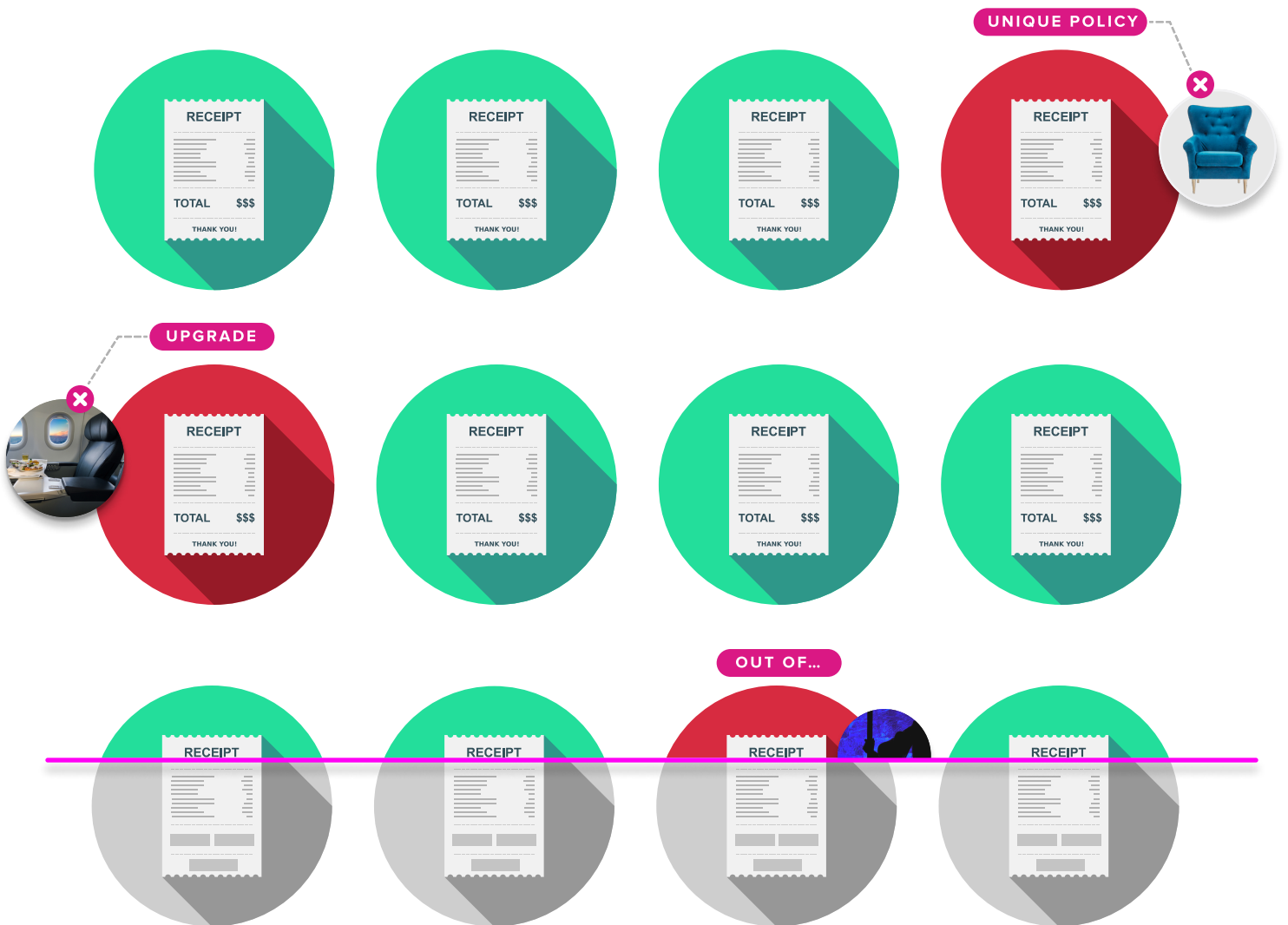


WHITE PAPER

8 ways to Eliminate Unnecessary Spend, Waste, and Fraud with AI



Introduction

Controlling corporate spend is always high on the list of priorities for CFOs but has become even more critical thanks to the COVID pandemic. Unfortunately corporate expenses are notoriously difficult to control. It's not uncommon for employees to accidentally submit duplicate or out-of-policy expenses, which are easily overlooked in the expense report shuffle. Unfortunately, misuse is common, thanks to enterprising employees who know how difficult it must be to track thousands of team members' missing receipt affidavits and inattentive managers.

Partial expense report audits are the norm for many companies who can't afford to pore over thousands of expenses every month and want to pay their employees back promptly. However, partial audits are far from ideal. They're tedious, time-consuming, and require a lot of manpower. Even with a thorough team of auditors, the probability of catching all errors is small, and not worth the hundreds of hours spent.

Traditional technology solutions don't solve this challenge because they can't compare what was entered in an expense report with what's on receipts themselves, nor check every merchant for legitimacy or appropriateness. But AI can help. AI-powered spend automation provides the opportunity for your finance team to accurately identify high-risk spend without eating up time or budget.

8 areas of company expense risk

Problematic expenses come in many forms. Sometimes employees don't fully understand their company's policy (see below), sometimes they'll submit an expense by mistake, and sometimes they test the limits. No matter their intent, out-of-policy expenses can add up to significant spend leakage.

Here are eight common risks AI-powered spend automation systems look out for:

1

PANDEMIC-ERA WORK FROM HOME EXPENSES

Many companies have changed expense policies in response to the sudden shift in working practices brought on by the pandemic. But relaxing rules and processes can provide short term relief in a crisis, but this can easily turn into a lax approach to ongoing control if not carefully managed. A new way of working brings with it new ways for employees to abuse it, and employee expenses provide a very illustrative example of this. A good example is employee lifetime allowances, which

As many companies changed their working practices in response to the pandemic, some have changed expense policies to adjust. But making changes to expense policies is only part of the equation – communicating those changes quickly and clearly is equally essential. And there are positive signs for those that do this well. AppZen research¹ has shown that employees are 50% more likely to understand updated expense policies if they are well communicated. They are also three times more likely to feel fairly compensated if the expense policy is clear and updated.

EMPLOYEES ARE

3x

MORE LIKELY TO FEEL FAIRLY COMPENSATED IF THE EXPENSE POLICY IS CLEAR AND UPDATED

some companies provide for productivity-enhancing purchases like headphones or monitors. With expanded policies to allow working from home, employees will hit lifetime thresholds quickly through no fault of their own. Automatically monitoring employees that are nearing these thresholds and adapting thresholds accordingly will be a key task for expense administrators in the coming months.

2

DUPLICATES

Duplicate expenses come in many forms. An employee might:

- submit a receipt for the same expense more than once, on separate expense reports, intentionally or not.
- file a cash expense for an expense they put on a company-paid corporate card.
- submit an expense twice, once with a receipt and once with an MRA (missing receipt affidavit).

Machines can have perfect memory of historical submissions and can catch any of these situations.

3

OUT-OF-POLICY EXPENSES

Catch flagrant policy violations ranging from massages, to strip clubs, to tattoos, and more. Even if the business is operating under another name, AI can reference online sources such as Google or Yelp to determine the true nature of a merchant's business. For example, AppZen AI has discovered the merchant name "K-Kel, Inc" as the DBA name for the strip club Spearmint Rhino.

4

BRIBES AND OTHER ILLEGALITIES

Gifts to clients or vendors can be legitimate expenses. But gifts to certain foreign government officials or other politically-exposed people could be considered bribes under U.S. federal regulations — and land your company in hot water. AI that can cross-reference names against databases and verify gift recipients is key for compliance.

5

TRAVEL UPGRADES

Expense misuse can be simple or elaborate — from submitting personal expenses on a trip, to buying a pricey airline ticket only to cancel and rebook a lower fare to pocket the difference, and more. Unnecessary upgrades are also common. For example, an employee might bump their plane ticket up to first-class or standard room up to a suite, claiming there was nothing else left on the flight or in the hotel. While other solutions may flag an unusually high rate, only AI systems can look for cost variances across various categories and use contextual evidence to flag the correct expenses for manual review.



6

BITES AND BOOZE

Most companies are clear about how much they'll reimburse for food and alcohol expenses on specific occasions (e.g., a solo lunch on a work trip vs. a client dinner out), but that doesn't mean that employees won't try to push the envelope. While an extra drink or appetizer is usually no big deal, recurring \$500 meals at Michelin-starred restaurants can do some real damage to your bottom line. AI-powered systems should call your attention to the most egregious spending, so your team doesn't waste precious time policing petty overages.

7

REPEAT OFFENDERS

Maybe an employee has been regularly adding extra padding to normal expenses — for example, expensing a \$75 airport taxi ride when they really spent \$50. Or, maybe they repeatedly submit expenses with missing receipts, or just under your company threshold for requiring receipts, to hide fraudulent claims. Unlike standard expense report software, only AI can detect suspicious patterns in individual expense reports as well as individual employee’s spending patterns to make sure your company isn’t being taken for a ride.

8

COMPANY-SPECIFIC, UNIQUE POLICY COMPLIANCE REQUIREMENTS

Large organizations often have specific requirements that are both difficult to manage manually and automate. For example, some companies require employees to purchase software subscriptions through procurement, not expenses, so that the subscription legal obligations can be accurately tracked. But accurately identifying a potential software purchase is tricky (Which companies sell software? Which SKUs are software, versus training or support?). AI models can lift this burden by allowing organizations with unique classification needs, like this example, to automate this work, delivering significant time savings and avoiding allocation errors.

Another practice, common in project or grant-driven organizations, is creating unique thresholds and policies for specific projects. For example, some overseas clients may reimburse business class airfare, but only economy is acceptable in other situations. AI-based systems can enforce spending within specific general ledger (GL) codes representing client projects, funding grants, company events, and more.



How AI can help

AI-based spend automation solutions are a fast and cost-effective way to manage company expense spend. While rule-based systems and manual audits can catch some overspending and misuse, only AI-powered software can give you the full picture of every expense.

Below are the critical requirements when you're considering an AI solution for company expense spend management:

1

AUDIT 100%, PREPAYMENT

Automatically audit 100% of expenses before reimbursement for duplicate, discrepancies, potential fraud, so you know which expense reports require manual review and which can go straight to payment. This allows you to reject expenses that don't adhere to policy before they're paid out, rather than trying to claw back that spend when it's too late.

2

UNDERSTAND DOCUMENTS

OCR can digitize text and look for numerical amounts or keywords, but it doesn't understand any context. AI understands expenses and can learn custom expense-related documents like business justification forms. So for example, if a root beer float is on a receipt, it knows it's a dessert, not a beer. And if pre-approval is needed on a special form before entertaining certain clients, AI can validate that too.

3

ENRICH WITH INTELLIGENCE

Critical information that you need to validate spend is likely scattered across the company, or in external online sources. AI can check the internet to verify merchants, prices, and check people against regulatory lists like politically-exposed persons. This allows you to fully assess your risk by bringing in additional context to understand every transaction.

4

CUSTOMIZE

Enterprise finance teams often have unique corporate spend policies that have been hard to enforce automatically, because they rely on a nuanced understanding of a particular circumstance or being able to read or understand supporting documents. AI can be configured to address these situations, at scale. If you can dream it, AI can automate it.

5

ASSESS AND REFINE RISK

Determine which expenses are erroneous, fraudulent, or non-compliant with your company policy. Spot duplicate expenses across the company, whether the expense is from the same person or different people. Effective AI solutions continuously assess risk, allowing you to take automated action.

6

STREAMLINE PROCESSES

With the capability to calculate the risk of each expense, you can automate the expense approval process with confidence. AI integrates into your existing expense automation system to audit every expense in real time to spot errors, waste, and fraud. This helps you shorten reimbursement times, which will delight your employees, while also still finding all instances of errors, waste, fraud, and non-compliance.

7

UNDERSTAND AND IMPROVE

Automating expense spend management takes insights, trends, and benchmarks out of the heads of your auditors (who can only see so much, and also might leave), and makes it available at your fingertips. From a 360° view of your spend, pinpointing and controlling risk in real time, to comparing your spend, risk, and operational performance against other similar companies, AI-based data analytics holds the key to turning a good program into a great one.

Conclusion

Getting a grip on company expenses starts with crafting clear company policies and communicating them effectively across all levels of your team. But for enterprises, the application of these policies at scale is where manual processes cannot deliver. AI solutions that can enforce compliance, root out fraud and other risk factors, and ultimately prevent significant spend leakage, offer an automated solution to addressing expense processing without needing additional human resources. At a time where spend management is more important than ever, doing more with less is a very welcome suggestion.



About AppZen

AppZen is the leader in AI software for finance teams. Over 1,800 global enterprises, including one-third of the Fortune 500, use AppZen to automate manual finance processes, reduce expenditures, and gain real-time insights into their business spend trends. Our patented software technology delivers AI deep learning, semantic analysis, and Star Match™, the only automated spend validation that processes intelligence from thousands of data sources, documents and images to understand financial transactions and make decisions based on finance policies. AppZen is the platform of choice for today's digital CFO and their teams.

Over 1,650 enterprises have standardized on AppZen, including four of the top five banks, four of the top ten media companies, four of the top ten pharmaceutical manufacturers, two of the top five aerospace companies, and six of the top ten software providers. Visit us at www.appzen.com and follow us on Twitter @AppZen

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