Hidden Cost of Fraud – How well are State & Local Governments detecting and managing fraud?

Detect accidental expense fraud and compliance issues with Artificial Intelligence

Jamie Jackson – Accounting Director - State of Alabama
Karin Carbaugh – Director, Public Sector – SAP Concur
Fraud prevention and detection – from a management and audit perspective

What more could you be doing to protect your organization from the risks around employee initiated spend?

Employees are spending more money across more spend categories using more payment methods than ever before. And with more channels to pay for goods and services, this leaves organizations vulnerable to fraud and compliance risks.

- Reputational risk can be worse than losing money
- Travel and expense is a major area vulnerable to fraud and compliance risks
- New ways employees are spending complicates T&E spend management
- Putting safeguards in place is essential

During this session we will discuss:

- Employee initiated spending and the potential for fraud
- Best practices around compliance communications and policies
- Anti-fraud safeguards to help detect and lower fraud losses
Agenda

- Overview
- Employee Initiated Spend in the Public Sector
- Establishing the base line – position yourself for success
- Discussion with Jamie Jackson – Accounting Director – State of Alabama
- Audits Future for Employee Spend Management
Employee Initiated Spend

**Employee Initiated Spend** - Any purchase an employee makes on behalf of an organization that is not managed by a purchase-order process, including procurement cards as well as travel-related and business expenses. Not only do these antiquated processes delay payments, but they are also difficult to track, prone to errors and vulnerable to abuse.

Employee initiated expense is the *second largest controllable expense* in most state and local organizations after payroll. It’s also one of the most difficult to control because agencies often lack much insight into the process.

One of the biggest challenges agencies of all shapes and sizes face is the ability to find a solution that *integrates every step in processing an employee initiated expense* to improve transparency, reduce fraud, increase compliance and ultimately avoid unnecessary costs*

Source: SAP Concur GovLoop 2017 Research Brief: *Modernizing The Tracking of State & Local Employee Initiated Spend*
State & Local EIS Landscape

**FIGURE 5**
What is the primary system used to submit your travel and business expenses?

- Pen & Paper (39%)
- Cloud-based Automation, ERP Systems or Web-based (18%)
- Proprietary System (18%)
- MS Office Applications (27%)

**FIGURE 6**
If you could change one characteristic of your current spend management system what would it be?

- Lack of Control Over Spending (5%)
- High Processing Costs (2%)
- Employee Frustration (30%)
- Data (6%)
- Payment Times (7%)
- Lengthy Reimbursement Times (22%)
- Lack of Automation (20%)

**FIGURE 4**
How long does it typically take for employee reimbursement of expenses to take place?

- More than 2 weeks (44%)
- Less than 3 days (6%)
- 1 week (14%)
- 2 weeks (38%)

Source: SAP Concur GovLoop 2017 Research Brief: Modernizing The Tracking of State & Local Employee Initiated Spend
Manage Employee Initiated Spend within a Single Platform

• Connect your spend data into a single global system
• Get visibility and better understand each financial transaction
• Simplify the process for everyone
• Enhanced vendor negotiations
Discussion with Jamie Jackson – Accounting Director – State of Alabama
The State of Alabama’s Journey

- What were the drivers (objectives) behind Alabama’s decision to reinvent your Travel and Expense Program?
- What were the major challenges the State was facing at this time?
- How have the changes been received by the States employees?
- What has the state been able to accomplish with improved transparency?
- Has the State seen better compliance from the new program?
- How are you auditing this program? (is it reactive audits, random sampling, 100% manual, automated rules and compliance with SAP Concur solutions)
- Are there any game changers for you?
- Are you auditing 100%? - Are you required by regulation/mandates?
The State of Alabama’s Journey

- If Alabama is not auditing 100%, what are the primary reasons you’re not?
- If Alabama is doing manual auditing, are you able to spot patterns of behavior across your hundreds if not thousands of expenses?
- How confident are you that you’re capturing all spend, receiving the proper documentation, and all expenses are in policy?
- What types of fraud schemes have you seen? (Mileage padding, fake expenses, duplicate expense report, etc.)
- Does Alabama administer cash advances/cash payments? What are your thoughts about cash advances vs. credit card program/pcard?
- Where do you see Alabama’s expense management program going forward?
Audit and Employee Spend Management
Manual audits shouldn’t be your only option

TYPICAL EXPENSE AUDITING PROCESSES

- **Employees get distracted** during the tedious task of auditing expense reports, possibly resulting in errors.
- **Validating all vendors** as being approved is time-consuming and costly.
- **Finding expenses for disallowed products** is difficult.
- **Confirming compliance** with policies and regulations for every expense is complex.
- **Determining if fraud is accidental or malicious** is difficult.
Why AI robots provide the best first review

• **Robots don’t get distracted.**
  Audit 100% of expenses, each with the same level of scrutiny.

• **They don’t have anything else to do.**
  Relying on busy managers to catch errors and fraud is risky.

• **They’re fast.**
  Results come back in minutes – not days, weeks or months later.

• **They don’t forget and they learn quickly.**
  Robots can identify complex patterns and apply industry best practices to sniff out fraud.

• **They have access to tremendous amounts of data.**
  They can use external data sources to quickly determine if a restaurant is really a day spa, or search words and brand names to find unauthorized purchases.

• **They have your input.**
  Your in-house or outsourced audit team can focus on remediating issues and creating best practices.
Use AI and robots to detect accidental fraud and compliance issues in your organization

Artificial Intelligence:

Integrates with your Expense System to analyze 100% of expense reports in near real time.
All reports can be checked BEFORE reimbursement.

Reduces cost of mistakes in reports by 60%**
How much would a huge reduction in expense report fraud save you?

Reduces time on audit by as much as 90%*
Allows internal or outsourced audit teams to focus on remediating issues and building best practices.

Sources: *Concur Internal Testing ** Association for Certified Fraud Examiners 2016 Study
From cocktails to criminal lists – AI reveals the truth in your data

An ARTIFICIAL INTELLIGENCE ENGINE CAN:

- Detect over 10,000 brands of alcohol
- Scan social media sites for reviews of restaurants to confirm legitimacy
- Check names against news sites and government lists to determine if guests are politically connected or associated with criminal activity
- Provide visibility into company-wide spend and audit trends, plus real-time alerts when an expense report is marked high-risk

Automatically detects unauthorized charges from:
- receipt images
- boarding passes
- travel documents
- cell phone bills
- and more
The Artificial Intelligence difference

Taps external sources and social media to research fraud
An effective AI engine accesses public and private databases and social media to research and analyze the information available in an expense report. The robots will know if a restaurant is really a strip club, or if a product name is actually alcohol or jewelry.

AI can extract much more information from receipts
Combine automated receipt extraction, translation, deep learning and natural-language processing to understand the full context of expenses from receipts, cell phone bills, boarding passes, travel documents and other documentation.

The best of automated and human audit
Combining real time automated review to support an organizations audit processes, helping customers find and remediate errors and build their own best practices.
Reduce fraudulent expenses and spend less time on audits.

- **60%**: Automated audits can reduce costs of mistakes in expense reports by 60%.
- **10x**: AI technology captures 10x the number of errors and fraud.
- **90%**: Using AI to do initial investigation on all expense reports reduces time on audits by as much as 90%.

Sources: Concur Internal Testing and Association for Certified Fraud Examiners 2016 Study
Questions
Unauthorized Expense (Language Translation + Alcohol)

Translates non-English receipts to English and uses data from AI to determine if anything on the receipt matches the client’s out-of-policy expense list.

Translated text from ja:
hotel nkko princess kyoto Hotel Nikko Princess Kyoto Teppanyaki Fudosen 1205260011105 4 People Amount 8,000 7 56,000 900 109000 Shirakawa 900 1 Plum wine summer domestic beef 11 - 00 Sukiyaki 1.8003540 5800 3 17, 400 2-000 1 2,000 whiskey whiskey subtotal Sub Total 92-300 Service fee Service Charge Consumption Tax, etc. Consumption Tax 6-834 Total Grand Total Payment Payment UFJ 33NI 2 a 9966 1 92, 300 Deposit Deposit Temporary Change U 10 2031 0218 000 17.05.26 22: 00 Dinner

6. Unauthorized Expenses

Unauthorized Expenses HIGH Alcohol was/were detected on receipt. Failed
### Mis-Categorized Expenses

AI will identify expenses submitted under the wrong category

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Category1</th>
<th>Category2</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>06-NV-17</td>
<td>$11.30</td>
<td>Uber</td>
<td>Parking</td>
<td>11.30 USD</td>
</tr>
<tr>
<td>25-OCT-17</td>
<td>$16.35</td>
<td>Uber</td>
<td>Parking</td>
<td>16.35 USD</td>
</tr>
</tbody>
</table>

**Taxi misclassified as Parking**

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Itemized Verification

Determines if the employee has submitted an itemized receipt for hotel and meal expenses above the client-specified threshold.

<table>
<thead>
<tr>
<th>#</th>
<th>Key</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Merchant Extracted from receipt</td>
<td>local public eatery</td>
</tr>
<tr>
<td>2</td>
<td>Transaction date</td>
<td>03-OCT-17</td>
</tr>
<tr>
<td>3</td>
<td>Maximum expected expense per person</td>
<td>60</td>
</tr>
<tr>
<td>4</td>
<td>Average expense per person</td>
<td>132.1</td>
</tr>
<tr>
<td>5</td>
<td>User Entered Merchant</td>
<td>Local Public Eatery</td>
</tr>
<tr>
<td>6</td>
<td>Merchant website</td>
<td><a href="https://www.yelp.com/assets/local/public-eatery-bronto-4?sort_by=date_asc">https://www.yelp.com/assets/local/public-eatery-bronto-4?sort_by=date_asc</a></td>
</tr>
<tr>
<td>7</td>
<td>Expense type</td>
<td>Meal</td>
</tr>
<tr>
<td>8</td>
<td>Reimbursement currency</td>
<td>USD</td>
</tr>
<tr>
<td>9</td>
<td>Number of attendees</td>
<td>1</td>
</tr>
</tbody>
</table>

Itemization verification: HIGH
Receipt is not itemized

Local Public Eatery  Dinner  132.10 USD

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