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Why Use AI For Audits? 'The Mind Gets Trained To Have A Positive Bias'

By David Jonas • July 22, 2019

The number of fraud examiners using artificial intelligence and machine learning to detect and deter fraud is expected to triple in the next two years. It doesn't take a supercomputer to understand why manual processes can fall short: complacency is a human trait.

"When you are eyeballing transactions and trying to make judgments about any risk attributes that are associated, you are only as good as your sample," said Oversight Systems EVP Manish Singh. "Ninety-five percent of expenses on T&E or purchasing cards really have no issues, The mind gets trained to have a positive bias."



AI tools for examining T&E expenses make sure employees use the correct processes, uncover patterns of suspicious activity, optimize spending and catch the real fraudsters.

Hartsville, S.C.-based \$5 billion consumer packaging and supply chain

company Sonoco is realizing some of the benefits after installing Oversight's risk mitigation platform this spring.

Sonoco sends employees on about 10,000 trips each year and spends about \$20 million on T&E. Supported by CWT, the travel program covers the United States and Canada, and now is expanding into Mexico and Europe. The company selected Oversight after conducting a

request for information for an AI tool to apply to travel expenses. Completed in May, Sonoco's Oversight implementation was more complicated than first anticipated.

"We combined a number of systems and inputs to tie in the card feed with the travel feed and the T&E expense reporting system," said Sonoco director of global category management Marc Ensign during an interview this month. "We had to bring all these together with internal policies and practices. I had expected four to six weeks. In the end it took four months. Some of that was just getting the

information and putting it together. What things do you really want to pay attention to? What are the parameters? Which subsets of the universe do we look at?"

Singh said Sonoco did a good job of getting various departments on the same page. "Procurement, shared services, internal audit, compliance ... there are lots of teams with different objectives," he said. "If the digital strategy is just optimizing shared services, it lacks the single monitoring control that meets the needs of all stakeholders."

Now Sonoco detects items that were submitted as restaurant expenses but were for adult clubs, according to Ensign. Or a claimed meal expense that was for clothing. It finds employees who seek reimbursement for personal mobile phones and internet access.

"We are detecting people using the wrong purchasing vehicle," maybe a purchasing card rather than a travel card, Ensign said. "They are trying to escape from using preferred suppliers. We will probably get cost reductions from that and hopefully better leverage with preferred suppliers."



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Oversight Systems
EVP of sales and client success

Oversight's AI checks all transactions. It looks for specific cases of fraud or misuse as well as patterns like excessive entertainment expenses on every trip. In one situation, an employee of a different client submitted high-end pet care expenses, including transportation to and from, as hotel and taxi transactions. The employee's manager approved everything twice a month for a year. Oversight caught the fraud.

"In this case, it triggered an investigation," Singh said. "Turns out the employee was also selling IT equipment of the company on eBay." Singh said that about three-quarters of those committing T&E fraud were guilty of other occupational fraud.

But cases of intentional fraud are rare. Oversight finds that 5 percent of client employees commit almost all of it while 70 percent usually do the right thing. The remaining 25 percent "engage in waste and misuse, but not fraud," said Singh. "They are not exercising good judgment. That's an opportunity to change behavior."

Ensign relayed a similar breakdown, with 20 percent representing "borderline" cases. "They're good people but they get as close to the line as they can," he said.

Ensign said the Oversight tool helped isolate exceptions, communicate with travelers and "speak to the management team with more credibility." Sonoco has a non-mandated policy but is "moving more toward a mandate" in terms of processes. The company's

business conduct policies state that employees are "personally accountable for any form of Sonoco funds entrusted to him/her — credit and purchase cards, tickets, cash, checks, etc. — and must ensure that the company receives proper value in return. All business travel and entertainment expenses must be documented and recorded in compliance with Sonoco's travel and entertainment policies."

To further optimize, Sonoco would like to use the tool to identify employees traveling to the same place. That can uncover savings opportunities by encouraging employees to, for example, share a rental car. Singh said Oversight could help with that, and a review of how many people need to go to the same location in the first place, by tapping into booking data.

Another potential Sonoco use is analyzing meal data. "Employees purchasing food while in their offices relates to people having frequent lunch meetings," according to Ensign. "They are doing good work. No fraud here." But they should not be expensing their lunches.

Singh said companies using AI for expense monitoring could move auditors from clerical to "higher-value jobs."

Ensign said it was too early for Sonoco to have realized that benefit. Still, he said "there is no question" the company will achieve its targeted seven-fold return on investment from deploying the tool.

Additional info: A study released in June found that 13 percent of Association of Certified Fraud Examiners member organizations used AI and machine learning to detect and deter fraud. Another 25 percent planned to do so within the next two years. Fifty-five percent of all respondents said their anti-fraud budgets would increase in that time. Also by 2021, 72 percent expected to apply automated monitoring, exception reporting and anomaly detection. About half said they'd use predictive analytics/modeling and/or data visualization.

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