

WHITE PAPER

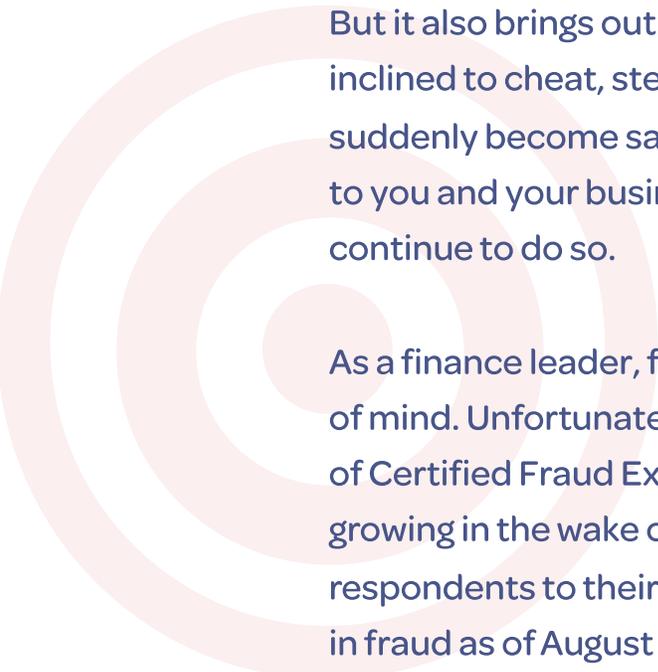
Fraud is going up – is your business prepared?



Introduction



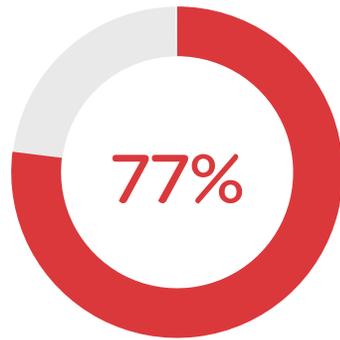
Times of crisis can bring out the best in all of us. As business leaders, we may feel increasing social responsibility to our employees' health and well-being, and come together to protect our businesses and communities.



But it also brings out the worst in some. Those more inclined to cheat, steal, and defraud have not suddenly become saints, and the dangers they pose to you and your business have increased -- and will continue to do so.

As a finance leader, fraud mitigation might not be top of mind. Unfortunately, research from the Association of Certified Fraud Examiners shows that fraud is growing in the wake of COVID-19 with 77% of respondents to their survey experiencing a growth in fraud as of August 2020.

Table 1 - Fraud in the Wake of COVID-19 - ACFE



**OBSERVED AN
INCREASE IN FRAUD
AS OF AUGUST 2020**



**EXPECT AN
INCREASE IN FRAUD
OVER THE NEXT 12 MONTHS**

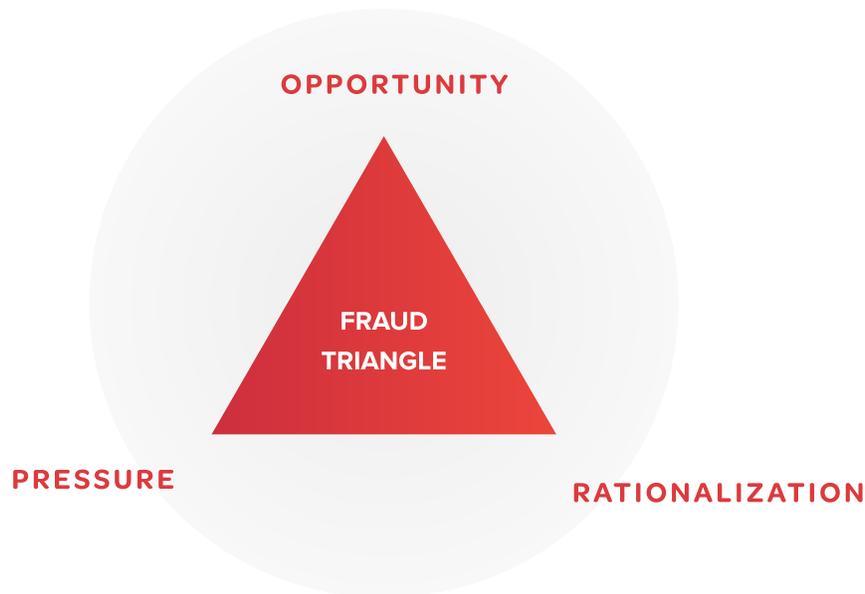
It appears that the pandemic has created a petri dish for fraudulent schemes - from cyber fraud, to payments fraud and more. And within the enterprise environment, the move to working from home appears to have increased the likelihood of employees to try and work the system. Given that many of us look set to continue to work from home for some significant time it is not surprising to find that 92% of the ACFE respondents expect fraud to increase over the next 12 months also. The good news is that this doesn't have to be a fait accompli for your business, and taking proactive steps can not only protect you, but save you time and money at the same time.

¹ <https://www.acfe.com/covidreport.aspx>

The Fraud Triangle



Fraud experts use the Fraud Triangle to focus attention on the three conditions that make fraud more likely: pressure, opportunity, and rationalization. Unfortunately, all three conditions are pointing in the wrong direction right now: toward more fraud.



1 PRESSURE

Pressure is all about a would-be fraudster's financial pressures, and the presence of financial pressure is nearly ubiquitous now. Many people have lost their jobs, or seen their income reduced. Those not directly affected by job loss might be watching their business's situation and wondering, will I be next?

Your suppliers trying to protect cash, your sales reps trying to make quota, your executives trying to hit a revenue forecast -- all have greater pressure than ever that may cause some to cut corners.

The opportunity for fraud has increased dramatically, for two reasons. First, companies are having to adjust their working practices in light of new conditions, and that means dealing with employees who are no longer office based, no longer in clear sight of regular processes, and overall much harder to manage. Second, traditional controls are under intense pressure, so many businesses have let down their guard.

Working environment

Many businesses are supporting their employees during this difficult time, such as making funds available to support them while they work from home, for example. But this generosity can lead to abuse with the potential for double-dipping and submitting the same expense twice, or once for WFH and one as a standard T&E report.

For the many organizations who have not specifically adapted their expense policies to account for working from home - they have created a monster. Employees in these companies feel less likely to be fairly compensated for expenses than those in organizations where changes were made to expense policies. These disgruntled employees form a potentially ripe source for expense abuse.

Weaker fraud controls

Some companies may reduce non-revenue related staff when times are tight. And many of your softer controls, like literal line of sight to your finance teams in the office, have eroded while everyone works from home. With your guard down, fraud may be easier to commit and easier to hide.

In normal times, your compliance leaders and internal and external auditors travel the world to shine a light on potential weaknesses in your protocols. But if sunlight is the best disinfectant, what might be growing in the dark corners of the business that no one is looking at closely?

3

RATIONALIZATION

There are always those who will rationalize fraud no matter the conditions, but when conditions worsen, rationalization becomes easier for some. When someone's back is up against the wall, it's much easier for them to feel that skirting the rules is okay, or at least necessary. It might be a family job loss, a reduction in hours, or the loss of other income streams like a rental unit.

Or it might just be a falling out with their employer. If they are cutting staff, it's much easier to feel less a part of the team and more the aggrieved party, willing to take advantage of opportunities. And they might think the scale of their fraud is so small, the company won't be harmed.



Ok, fraud attempts will rise. What can I do about it?



So at a time when costs are under great strain, adding investigative staff is not an option, and everyone is working remotely, how can you stop would-be fraudsters? It turns out there is some good news. By rethinking your controls regime and mining the data already coursing through your existing enterprise systems, you can identify, investigate, and remediate potential fraud -- and even prevent it in the first place.

Many companies have built compliance functions on the principles that legal defensibility and reputational protection come from a well-constructed policy, investigative process, and working with leading and trusted law and accounting firms.

But some leading companies are starting to rethink their approach from compliance as a performative exercise (“look at my process and my trusted advisors: I must be doing it right”) to compliance as a operational discipline (“the data shows that it’s working”), driven by a continuous and automated review of payables and expense transactions, vendors, conflicts of interest, and more.

4 key reasons AI understands financial documents better than anyone else

1. AI looks at everything: every transaction, every line item.

2. AI remembers everything, so it can spot anomalies and duplicates over time.

3. AI doesn't just look at the transactions themselves, but at their context.

4. AI is continuously learning from the collective experience, insight, and problem spots from other large enterprise customers.

HOW WE DO IT

**So how does a mass of data help without an army of analysts?
That's where AppZen comes in.**

At AppZen, we specialize in the AI that reads financial documents – like invoices, POs, receipts, – and extracts meaning from all the structured and unstructured data in those documents to identify the problem spots -- like potential fraud -- before you pay.

There are four key reasons our technology does this better than anyone else: first, we look at everything: every transaction, every line item. Second, we remember everything, so we can spot anomalies over time and duplicates. Third, we don't just look at the transactions itself, but at their context. And fourth, our large customer base means we're continuously learning from the collective experience, insight, and problem spots that emerge across a wide swath of companies. Let's look at these closer

1

INVESTIGATING 100% OF TRANSACTIONS AND LINE-LEVEL ITEMS

AI can process a huge volume of transactions, making it extremely good at recognizing when something is awry. Most of the time, it isn't outright fraud -- it's a duplicate invoice or receipt, or someone expensing an out of policy item, or a vendor that's gotten debarred for reasons other than your relationship.

2

A PERFECT MEMORY

AppZen AI remembers every transaction and document it's ever processed, which makes catching duplicates across invoices over time, or across departments, or price or quantity anomalies, a cinch. We can help you systematically identify which employees are always over the policy line; for example, which employees are consistently spending slightly higher than the per diem meal limit. It's an objective way to see who is pushing the limit of T&E policy, not being diligent, or even committing deliberate fraud. For one of our customers, our AI flagged an executive with unusually high spend, kicking off an investigation that discovered that someone at the company had gotten hold of the executive's company card and was buying things for herself in the executive's name.

3

CONTEXT IS KEY

In addition to finding suspicious patterns in the business spend transactions and documents we review, we also leverage the power of Star Match™, which references an unlimited number of data points from documents, business systems, and online sources to validate every transaction before payment. This allows us to question a \$50 claim from a fast food restaurant, or spot receipts from questionable merchants - for example a merchant that disguises its true nature, or has government associations.

4

BREADTH OF EXPERIENCE MATTERS

AppZen AI serves one third of the Fortune 500 and over 1,800 customers overall - meaning that it sees a lot of different kinds of misbehavior. For example, let's say our AI auditing starts seeing a lot of employees submitting Starbucks gift cards for reimbursement across different companies. These would appear as fraudulent attempts to pad expense reports with personal spend. If we start seeing that pattern in your transactions, you'll immediately benefit from what we saw and learned from other customers. (Of course, only you see your transactions. Our system learns and shares the patterns that represent high risk, but never any transactional data.)

Of course, in many cases, what's out of policy for one company is just fine at another. So we combine the power of scale with the controls to let every customer automate their own policies and tailor the risks they care about most, and even create totally custom rules. Customers can build custom spend policies, controls, and risk levels - 100% personalized to their needs.

These insights help companies replace an auditor's skill to catch a few bad actors with a systematic, data-driven, and fair approach. Similarly, on the supplier side, we look at every transaction and determine if there are patterns of risk over time that point to serial abuse or mismanagement that needs to be addressed.

The best news: better fraud protection can pay for itself



And here is the best news of all -- an AI-driven business spend fraud mitigation program is easy to start, and has an incredibly short payback period -- often within the first quarter. You don't need to find an extra operational budget outside your plan (no-one has that during COVID anyway) and don't have to do a big IT project, either. While we're auditing your spend to protect you from fraud, we also reduce your spend by catching and preventing it before money goes out the door. We catch duplicates, wasteful or over-the-limit spend, data entry typos, incorrect receipts, invoice anomalies, out of policy expenses, and so much more.

At a time when your teams are being asked to do more with less, AppZen can help you streamline your processes. At one of America's largest and most admired companies, low-risk expenses and invoices are now auto-approved because of AppZen -- saving managers from wasting time rubber-stamping reports -- with monthly emails summarizing how and who in their team is spending. And we save finance teams' time by separating the wheat from the chaff -- highlighting high risk transactions that need review and eliminating time spent spot checking transactions that are just fine (which, as you know, are the vast majority).



About AppZen

AppZen delivers the leading AI-driven platform for modern finance teams. The AppZen Platform is built on 7 years of learning from thousands of online sources, thousands of customers and billions of financial documents and transactions like invoices, contracts, expense and accounting data. Starting with business spend, we automate manual process, uncover problems and optimize decision making at scale for finance organizations around the globe, including one-third of the Fortune 500. The AppZen Platform combines patented computer vision, semantic analysis, and deep learning to understand financial transactions in business context and make decisions before those transactions happen. It is a must-have for CFOs and their teams to comply with policy and regulations, streamline process, and reduce spend.

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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