The State of AI in Business Spend

August 2019

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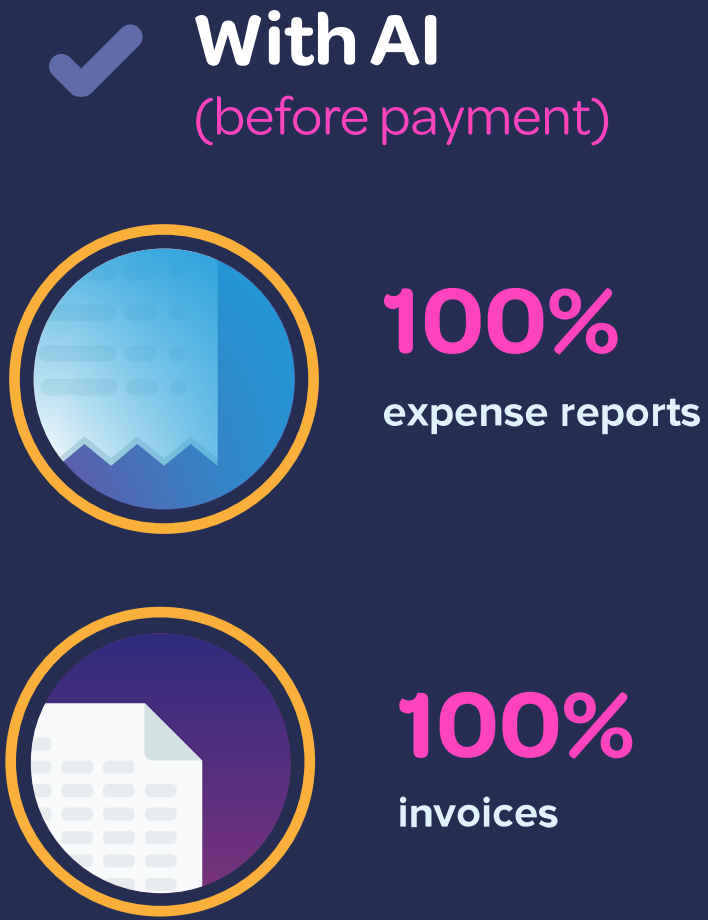# Table of contents

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Executive summary

Enterprises that use artificial intelligence to audit their expenses, invoices, and contracts reduce spend, comply with policy, and streamline process. This report shares findings based on aggregated, anonymized data from AppZen direct enterprise customers. The report has seven primary sections, including average audited spend, high-risk spend, spend-oriented regulatory violations, non-compliant spend, expense policy benchmarks, the spend audit process, and key takeaways for finance teams.

Except in areas in which comparisons are made, findings and benchmarks conveyed in this report are gleaned from organizations worldwide that are using AI to audit 100 percent of their spend. Conclusions are based on expense report, contract, and invoice audit data from billions of transactions across hundreds of enterprise customers from April 1, 2019, through June 30, 2019.

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Spend breakdown

On average, enterprises processed over 200,000 spend transactions last quarter. Finance teams that use artificial intelligence in their spend audit reviewed 100 percent of transactions, versus 2-10 percent of expense reports and 5-10 percent of invoices for teams that didn't.

✗ Without AI
(after payment)

2-10%
expense reports

5-10%
invoices

✓ With AI
(before payment)

100%
expense reports

100%
invoices

Last quarter, the average enterprise processed an average of 8,876 expense reports per month. Nearly nine percent of these expenses were considered high risk, which means they either violated company policy or were flagged for potential errors, misuse, or fraud. Some of the top reasons that expense reports were flagged last quarter were for unauthorized expenses (out-of-policy items or merchants), amount mismatches (user typed in a different amount than the receipt), and duplicates (resubmitting the same receipt twice, either between employees or by the same employee).

An even larger area for potential spend leakage is lurking in AP departments. Last quarter, the average enterprise processed over 60,354 invoices per month. Nearly seven percent of these invoices were considered high risk. A few of the most common reasons invoices were flagged as high risk was because of inflated price (based on external market data uncovered by AI), volume, price, or payment term mismatches between the invoice and negotiated contract, or duplicate invoice charges (either duplicate invoices from suppliers, or duplicate invoices between disparate expense and AP systems).

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AI flags high-risk spend

Not every transaction is created equal! For every percentage point of high-risk spend transactions, there were 7.3 percentage points of high-risk spend dollars. This makes finding high-risk spend even more critical, making AI-based spend auditing technology crucial to the audit process.

AI flags

8.7% of expenses as high risk

Top reasons:

- ✓ Unauthorized expense
- ✓ Error in amount
- ✓ Duplicate expense

AI flags

4.0% of invoices as high risk

Top reasons:

- ✓ Price, discount, or terms don't match contract
- ✓ Inflated price compared to market
- ✓ Duplicate amount (across invoices or with T&E)

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Spend-oriented regulatory violations

Regulatory violations can include payments to the following entities: foreign officials, foreign-owned government entities, politically-exposed people, sanctioned or debarred companies, entities on an export control list, or to healthcare providers.

For every 10,000 expenses

2 contain a regulatory violation
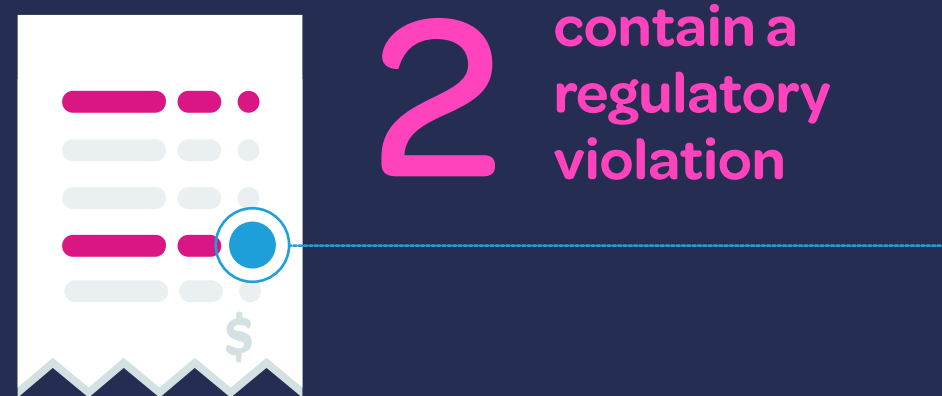
Last quarter, AI discovered that, for every 10,000 expenses, two contained regulatory violations. An example is your government relations manager who purchases World Cup tickets for a legislator's Chief of Staff, who has "opened a lot of doors" for your company.

For every 10,000 invoices

1 contains a regulatory violation

For every 10,000 invoices, one contains a regulatory violation. An example is your regional sales director, who funnels payments to a distributor for fake "logistics services," that the distributor will pay to a social security administrator who influences reimbursement policy for your company's product.

Tip: The average monetary corporate sanction imposed for a Foreign Corrupt Practices Act violation is $233 million in 2019, according to Stanford Law School.

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The "Spendies" – Non-compliant or wasteful expenses

From cufflinks, to cigars, to helicopter rides, employees can get pretty creative in what they claim as business spend. AI flagged the most daring examples of expenses employees submitted for reimbursement last quarter.
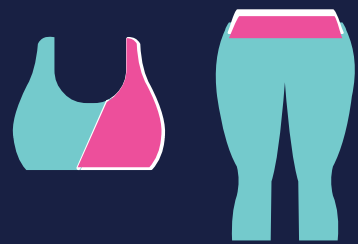
Gear at lululemon	Daily Starbucks coffee cards	Lunch with oligarchs	An "extramarital" travel companion
Cigars for the team	"Airbnb" on a friend's couch	Strip club "services"	Private helicopter ride
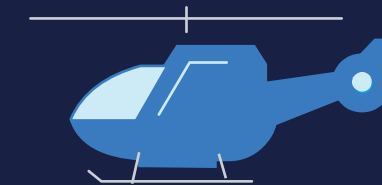
Tip: Although these expenses may seem outrageous (or even blatantly obvious), they can be hard to find without the help of AI. Cigars may be listed under a brand name, or buried in a line item on a receipt at an approved establishment. Strip clubs may have names that appear similar to typical dinner receipts to the untrained eye. AI ingests data from thousands of online sources to flag spend violations that human auditors miss.

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Accounts payable "Gotchas" –
Non-compliant or wasteful AP spend

From crazy price markups, to forgotten discounts, to padded construction spend, your invoices can be a treasure trove of spend leakage. Below are some of the most egregious examples of errors, waste, and fraud in AP last quarter.

AI flagged these AP gotchas

- Two different prices...in the same contract

- Invoice for IT equipment that's 5x the market price

- Partner contract that expired a year ago

- $45,000 hotel invoice already reimbursed via T&E

- A year's worth of invoices with none of the negotiated discounts

- Auto-renewing contract for a no-longer-used service

- Construction project invoice for bunk "materials"

- Supplier invoice with payment remit to...an internal employee

- Invoice from a debarred supplier

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How does your expense policy line up with the industry?

Consider these approval thresholds in your policy. On average, auditors approved 79 percent of above-limit expenses last quarter. For some policies, this percentage may indicate that it's time to revisit your expense thresholds. We'll let you be the judge. Consider these approval thresholds and exceptions* in shaping your policy.

*These are on a per-expense basis, so they don't always reflect an apples-to-apples daily or per-person limit.

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Airfare Upgrade		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$453	75%	$1,219

Specialty Vehicle Rental		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$928	83%	$1,415

Minibar		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$25	86%	$41

Room Service		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$110	94%	$209

Luggage Check		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$55	92%	$122

Internet		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$187	92%	$196

Laundry		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$35	89%	$202

Health Club Visit		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$16	46%	$38

Car Wash		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$33	94%	$77

Movie		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$25	73%	$60

Bike Maintenance		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$25	85%	$176

Satellite Radio		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$25	70%	$251

Alcohol		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$266	86%	$1,044

Cell Phone		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$181	87%	$246

Gifts		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$88	78%	$509

GPS		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$25	88%	$368

Golf		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$97	78%	$742

Roadside Assistance Insurance		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$50	N/A	N/A

Personal Accident Insurance		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$96	74%	$392

Sports Tickets		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$178	85%	$2,084

Traffic & Parking Violation		
POLICY LIMIT	ABOVE LIMIT	APPROVED ABOVE-LIMIT
$78	77%	$155

Streamline your spend audit process

Last quarter, 85 percent of enterprises that used AI to audit spend automatically approved low- and medium-risk invoices and expense reports. With AI, auditors can focus only on the high-risk items, saving valuable time.

85%

of enterprises that use AI to audit spend automatically approve low- and medium-risk spend.

Pro tip: This takes managers out of the workflow, saving hours each month for each manager, and lets auditors focus their attention on the fraction of spend that's flagged as high risk.

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Recommendations for finance teams

Based on the insights and benchmarks gleaned from the AppZen Platform last quarter, finance leaders should implement the following practices:

1

Use AI to audit 100 percent of expenses and invoices before you pay

2

Consider adjusting your spend policy thresholds to gain audit efficiencies

3

Auto-approve low- and medium-risk spend, routing only high-risk items for review

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About AppZen

AppZen delivers the world's leading AI platform for modern finance teams. Starting with business spend, we automate manual process, uncover problems, and optimize decision making for enterprises around the globe, including 25 percent of the Fortune 500. Our platform combines patented deep learning, computer vision, and semantic analysis with intelligence from thousands of online data sources to understand financial transactions in business context and make decisions before those transactions happen. AppZen is a must-have for CFOs and their teams to reduce spend, comply with policy, and streamline process.

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