DSD BUSINESS SYSTEMS

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How to Guard Against Accounts Payable Risk

A Guide to Preventing Fraud in Your AP Operations

This guide explores current fraud trends in the market and offers best practices for organizations looking to improve their management of risk.

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Fraud can have a detrimental impact on an organization's finances, operations, and reputation—and it doesn't discriminate against company size or type. According to the Association of Certified Fraud Examiners, in 2018, there were more than $7 billion in losses due to fraud worldwide[1]. When fraud happens, it commonly occurs within Accounts Payable functions, as payments that are regularly sent out to vendors can be manipulated or tampered with. Payments fraud has been on the rise in recent years. According to research done by the Association of Financial Professionals (AFP), 82% of financial professionals in North America reported that their organizations experienced attempted or successful payments fraud in 2018; this is a 20% increase from 2014[2].

There are several common types of AP fraud—both external and internal:

» **Duplicate payments**, where vendors are paid more than once due to receiving the same invoice in different formats.

» **False billing**, where employees might be creating false invoices which lead to self-payment. These invoices may include false charges, or they may disguise purchases under vague or repeated invoice line items.

» **Fraudulent payments** initiated by employees, usually via check or ACH, which are the two of the most commonly used formats of Business-to-Business (B2B) payments. Notably, 70% of organizations experienced check fraud in 2018. However, the frequency of check fraud has decreased since last year, while ACH fraud has increased. (Source: AFP)

» **Unapproved vendors**, leading to false payments to those who should not be receiving payment.

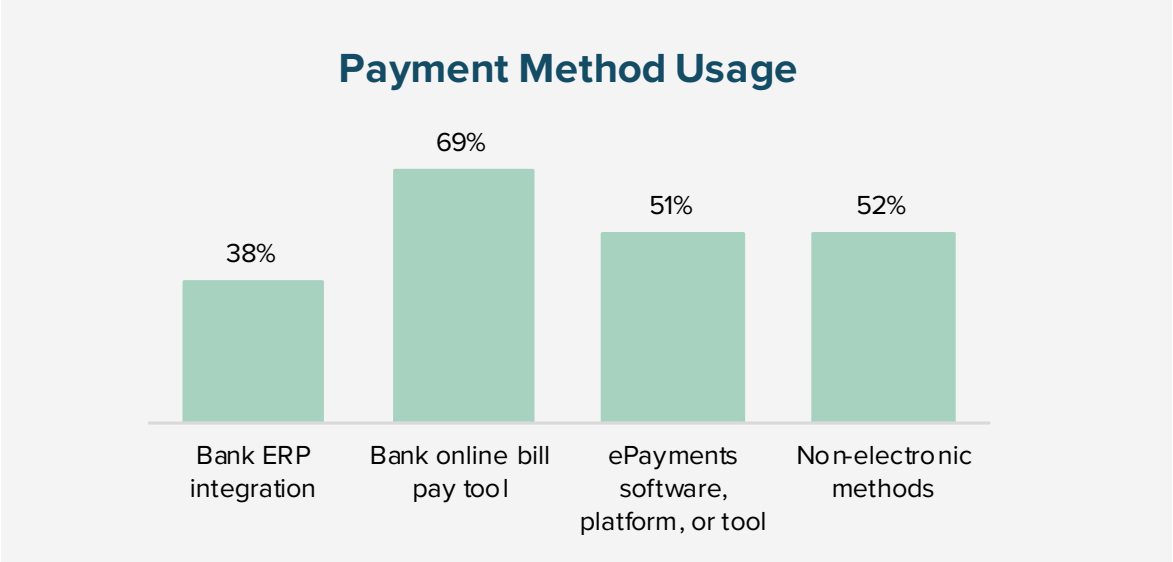
» **Conflict of interest** situations in which an employee may hold interest in a vendor, causing an organization to pay more than it should.

» **Tampering with financial reporting**, where an employee may change financial data after payments are completed.

[1] 2018, ACFE Report to the Nations: Global Study on Occupational Fraud and Abuse
[2] 2019, Results from the 2019 AFP Payments Fraud & Control Survey

One reason AP fraud occurs so frequently can be attributed to the rise of international business and global supplier payments, especially within the last decade. Globalization affects even mid-market and smaller organizations as international markets are becoming more accessible to businesses of all sizes. Another common cause of fraud is a heavy reliance on manual AP methods, including check payments and paper approval routing. With manual processes, it is easier to tamper with records, forge check endorsements, and fabricate approvals. Also, despite the belief that paper trails are foolproof, especially when it comes to audits and investigations, fraud occurring amidst manual operations is not easily detected. Unfortunately, the use of manual payment methods is still a favored option for many organizations (see Figure 1).

FIGURE 1



Online Bill Pay Tools and Non-Electronic Payments Methods are the Most Popular

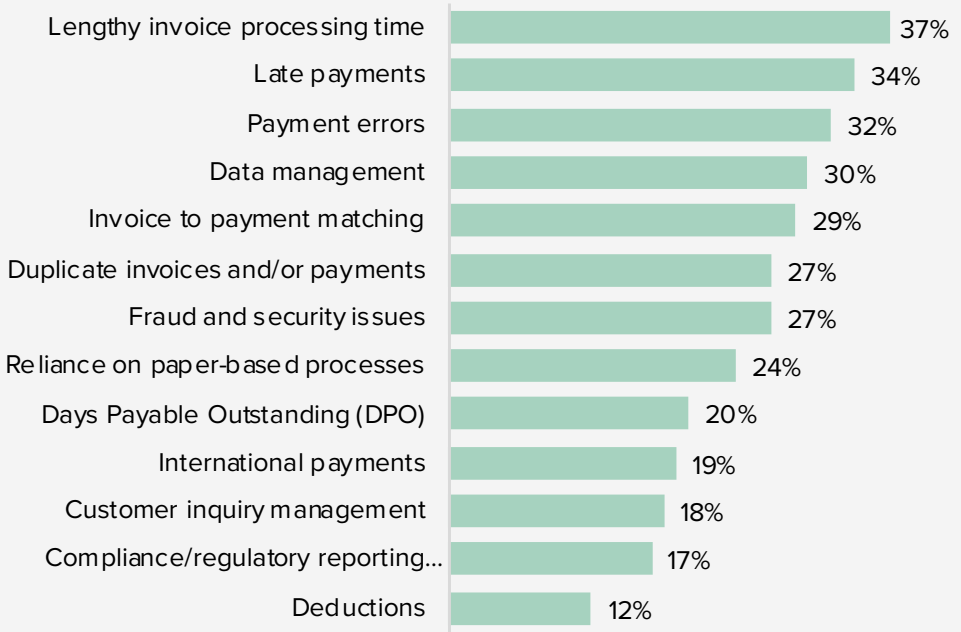
Which of the following payment methods does your organization currently use?

Organizations need to **improve visibility** and **tighten their grip on risk prevention** across the entire AP process.

Organizations—particularly those in the mid-market with more vendors than a small and medium-sized enterprise (SME) but not as many controls in place as an enterprise—need to improve visibility and tighten their grip on risk prevention across the entire AP process. When AP is operating manually or an organization lacks fraud prevention measures, there are many process and control gaps in which fraud can take place. One of the top payments-related pain points is duplicate invoices and/or payments, followed by many others that pertain to fraud and risk management, including reliance on paper-based processes and invoice to payment matching (see Figure 2).

FIGURE 2

Payment Challenges



Many Payment Challenges are Related to Risk and Fraud Management

Still thinking about your organization's current payment solution and/or process, which of the following describes your organization's top payment issues or challenges?

When invoices and payments processing is paper-based, they are highly difficult to track and it is much more common that someone pays a fraudulent invoice, whether unknowingly or intentionally. Lack of visibility into payment activity can also lead to more frequent duplicate payments or higher chances of check or ACH fraud.

Once organizations adopt an **AP automation solution**, they greatly improve their risk management capabilities.

Once organizations adopt an AP automation solution, they greatly improve their risk management capabilities through improved visibility, tracking, and controlling invoice and payment processes. Increased visibility leads to benefits like fewer duplicate payments and lower risk of check/ACH fraud, as well as more efficiency for employees and lower costs to the business overall.

Organizations can take the following steps to improve their AP's risk management and avoid fraud:

- **Use artificial intelligence (AI) or machine learning (ML)-powered automation software to monitor spend.** Advanced software can identify any duplicate invoices, extra charges, or suspicious activity, as well as complete regular spend analyses.
- **Verify vendors.** AP and finance professionals should take care to only add vendors to the system that are approved and verified. Risk management software can ensure there is no repeated contact information, suspicious addresses, etc.
- **Move AP to a digital environment.** With electronically based AP processes, payables operations aren't at the mercy of paper, its inefficiencies, and its security concerns.
- **Automate approval process.** With an automated routing process, organizations can track every movement of an invoice and any user's activity regarding it, including when invoices are submitted, approved, and paid. Organizations can also more easily control approval thresholds for payment amounts. CFOs have tighter control of who approves invoices, and when payments are made, so they can manage risk and financial loss to the company at a broader level.
- **Use advanced reporting functionality to continuously improve processes.** AP managers and finance executives should regularly evaluate and analyze data surrounding invoice activity and make incremental improvements that address any problems or inefficiencies.
- **Constantly review transactions, randomly audit, and create electronic audit trails.** Organizations should adopt an AP and risk management solution that can automatically create a searchable audit trail of all invoices and payments. This approach to AP allows organizations to stay ahead of compliance requirements for any tax filings or audits.

Adding **transparency** and **tighter control** throughout the financial process will strengthen organizations against risk and loss.

There are advanced solutions available for organizations that are looking to improve their management of risk and fraud prevention through the steps listed above. With globalization and technology transforming markets, supply chains, and business operations, AP departments should think proactively about risk and fraud management, as well as more strategically overall. Adding transparency and tighter control throughout the financial process will strengthen organizations against risk and loss, and prepare them for an increasingly diverse and digital business world.

About the Sponsor

Quadient AP automates accounting workflow to empower teams to succeed. From purchase to payment, Quadient AP integrates with organizations' software to make AP simple and delightful. Thousands of users manage AP at a fraction of traditional processing costs while remaining focused on financial management and reporting. For more information on how to save time and focus on what matters most, please visit www.quadient.com/ap-automation

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