



Expensing

Sourcing. Procurement. Accounts Payable.

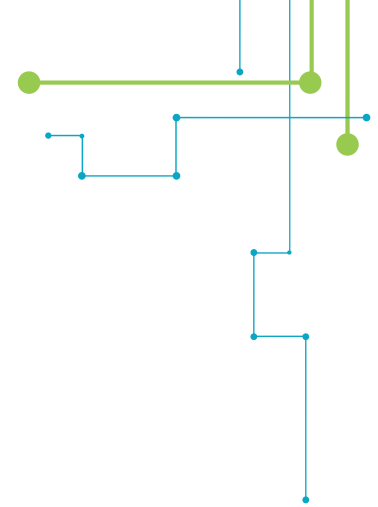
# CFO RULEBOOK FOR CORPORATE SPEND MANAGEMENT

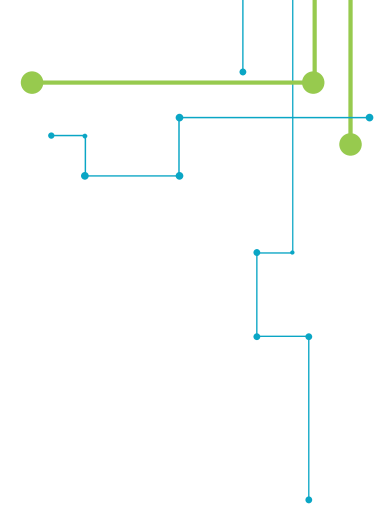
A no-nonsense guide to reducing  
enterprise spending by 30%

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## 1 6 SIGNS OF BAD PROCUREMENT POLICIES AND PRACTICES

1. Unauthorized maverick spending
2. Inflated expenses
3. Budget overruns
4. Low and non-granular spending transparency
5. Growing costs of Procurement and Accounts Payable teams
6. Auditors demand better authorization and accounting governance

Such organizations are suffering severe financial consequences. The only viable solution is the immediate digital transformation of spend management.

### 1.1 WHAT IS CAUSING THESE 6 ISSUES?

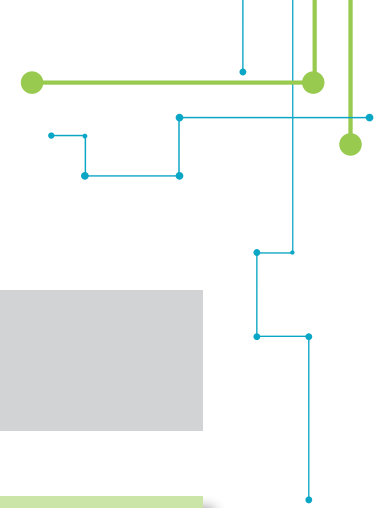
Most **CFOs** are overloaded.

Constant juggling between different stakeholders and their requests, in a largely decentralized and analog environment, drains away available time. This, consequently, renders the CFO less efficient.

At the operating level, **Procurement and AP teams** are overstretched.

They are regularly working overtime, trying to finish what seems to be a never-ending stream of tasks. At the same time, they are handling excessive phone calls, emails, and regular mail.





A good portion of this communication frenzy is unnecessary and does not exist in optimized environments.

A driving factor is the **decentralized nature of procurement processes**. It only adds to dissonance that already affects vertical coordination.

The margin of error, therefore, increases exponentially with every newly added task.

**The immediate consequence** is the inability of Finance to meet objectives such as:

- ▶ Timely execution
- ▶ Strong governance and risk mitigation
- ▶ Lean teams delivering a high volume of work
- ▶ Good supplier relationships
- ▶ Perception of the organization as fair and transparent by Suppliers and teams

**DECENTRALIZED NATURE  
OF PROCUREMENT  
PROCESSES AFFECTS  
THE COORDINATION  
BETWEEN CFO,  
PROCUREMENT TEAM  
AND AP TEAM.**

## 2 3 AREAS NOTORIOUS FOR DISSIPATION THAT REQUIRE ATTENTION

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1. PROCUREMENT

2. ACCOUNTS PAYABLE

3. FRAUDS

## 2.1 WASTAGES AND INEFFICIENCIES IN PROCUREMENT

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### DECENTRALIZATION

Managers of different departments arbitrarily choose their suppliers. Most commonly, this happens on short notice without any central governance or influence.

The financial losses in such a scenario are inevitable.

### THE LAST-MINUTE CULTURE

This so-called, *last-minute culture* is predominantly caused by the lack of long-term planning.

*For instance, the head of marketing could choose to pre-select a single agency to handle the organization of the sequence of PR events in different countries just because the due date is in less than a month which doesn't leave much time to set up a proper tender.*

**EVERY TIME WE NEED  
SOMETHING A.S.A.P.,  
THERE IS A HIGH  
PROBABILITY THAT WE  
ARE SPENDING MORE  
THAN WE SHOULD.**

### NO PAST PURCHASE INFORMATION

In many organizations, procurements rely on a few experienced employees instead of a well-organized, centralized database that contains all relevant data. What happens when Steve, a go-to guy for the procurement of office supplies, is unavailable for an extended time?



## **ANALOG NEGOTIATIONS OF PRICES AND TERMS**

*"Send me your best price via email."* This is the sentence that can easily cause a 20% loss because it does not utilize existing digital tools that help well-structured organizations to get better rates.

## **DIFFICULT CROSS-TEAMS COLLABORATION**

In every procurement process, there are two parties involved:

1. Business teams that know what they need.
2. Procurement teams that know how to best buy to minimize the cost.

However, if business teams are executing procurements, the necessary coordination between the two is missing. Hence, there is no guarantee that the procurement takes cost-saving into account.

This, effectively, means that the organization isn't leveraging the respective strengths of the teams involved in the procurement process.

## **ABSENCE OF A SYSTEMATIC TOOL FOR PURCHASE REQUESTS AND AUTHORIZATIONS**

While most organizations do have systems for purchase requests in place, authorizations policies are all but optimal.

Commonly, there is no central authority that could confirm whether procurement is necessary.

## INADEQUATE/UNHELPFUL ERPs



**An ERP is as good as its policies and practices are.**

Therefore, if a procurement sequence is reversed, like it is frequently happening in most mid- to large-sized organizations, an ERP is rendered under-productive.

As it usually happens, an invoice arrives, nobody can find the Purchase Order, so they create an ad hoc request. The outcome is either paying a higher rate or double-spending.

## 2.1.1 HOW TO SOLVE THESE PROBLEMS

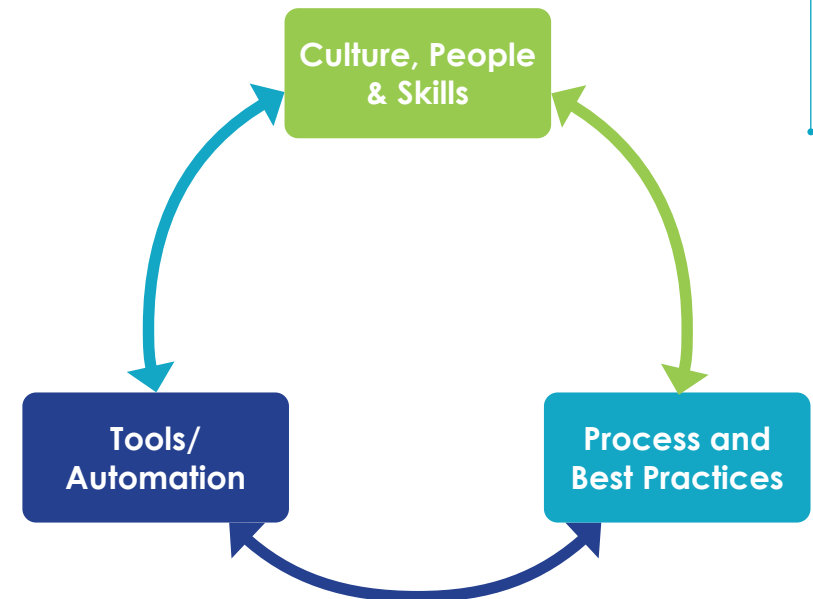
There are three primary domains of an organization a CFO should focus on:

The problem-solving process starts by asking a few important questions about the first domain.

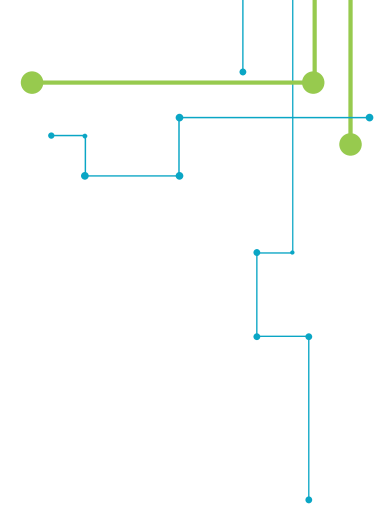
### Culture, People & Skills:

- ▶ Do people feel uncomfortable negotiating better rates or terms?
- ▶ Are they proud of their work?
- ▶ What are incentives for spend control initiatives?
- ▶ How proactive are procurement teams?
  - Will they search for suppliers in advance or just fire RFPs and wait for the best proposal?
  - How to incentivize the shift from being reactive to proactive?
- ▶ How familiar are they with the core values and purpose of the organization?
  - Are these clear and, thus, adopted, or just a page of a complex text nobody understands in a drawer?
- ▶ Is the Zero Tolerance Policy defined and known to everybody involved in these processes?

Once these issues are solved, a CFO moves to the implementation of practical solutions:







## Process & Best Practices:

- ▶ **Organize supplier empanelment process:**
  - Define who is in charge
  - Define metrics
  - Define different processes for different types of vendors
  - Avoid doing business with non-empaneled vendors
- ▶ **Stop decentralized procurement** (to induce order in chaos).
- ▶ **Procure ONLY against a PO.** In other words, avoid issuing mail- or phone-based procurement orders.
- ▶ **Set up templates** of specifications for ordering complex items by different business teams (prevents moving scope of requirements).
- ▶ **Define unique item codes** for every item you buy.
- ▶ **Organize the delegation-of-authority** hierarchy (DoA matrix) based on a value, type of item, and its respective department/location and make it as granular as possible.
- ▶ For regular items, **set rate cards**.
- ▶ **Keep records of assets** (prevents unnecessary purchases).

Once the rules are set and templates sketched, the next step is to encode them into an automation tool.

## Tools/Automation:

With the centralization of the processes, a CFO can now set a global policy that includes but it's not limited to:

- ▶ Using **RFP** for specifications, supplier responses, and assessment
- ▶ Using tools like **online bidding** for best prices
- ▶ Enforcing **Rate Cards**

- ▶ Enforcing **"No PR, no PO" rule** with no back door regularization
- ▶ Enforcing **time limits** to get out of the "last-minute culture"
- ▶ **Collating vendor info and history of purchasing** (a restricted-access database)
- ▶ **Setting up reminders** for (suppliers) contracts' expiry dates
- ▶ **Assigning employees authorized to make changes** in suppliers' info, especially payment details --and overseeing such updates
- ▶ **Facilitating User Acceptance and/or Proof of Delivery** for downstream invoice processing

Still, in an analog environment, a CFO can only hope that everybody involved in a procurement process obeys the policies and rules. Human error or deliberate misconduct is still inevitable.

It is only after migrating the processes to a **digital environment** that we can completely remove deviations.

## 2.2 ACCOUNTS PAYABLE - WASTAGES & INEFFICIENCIES

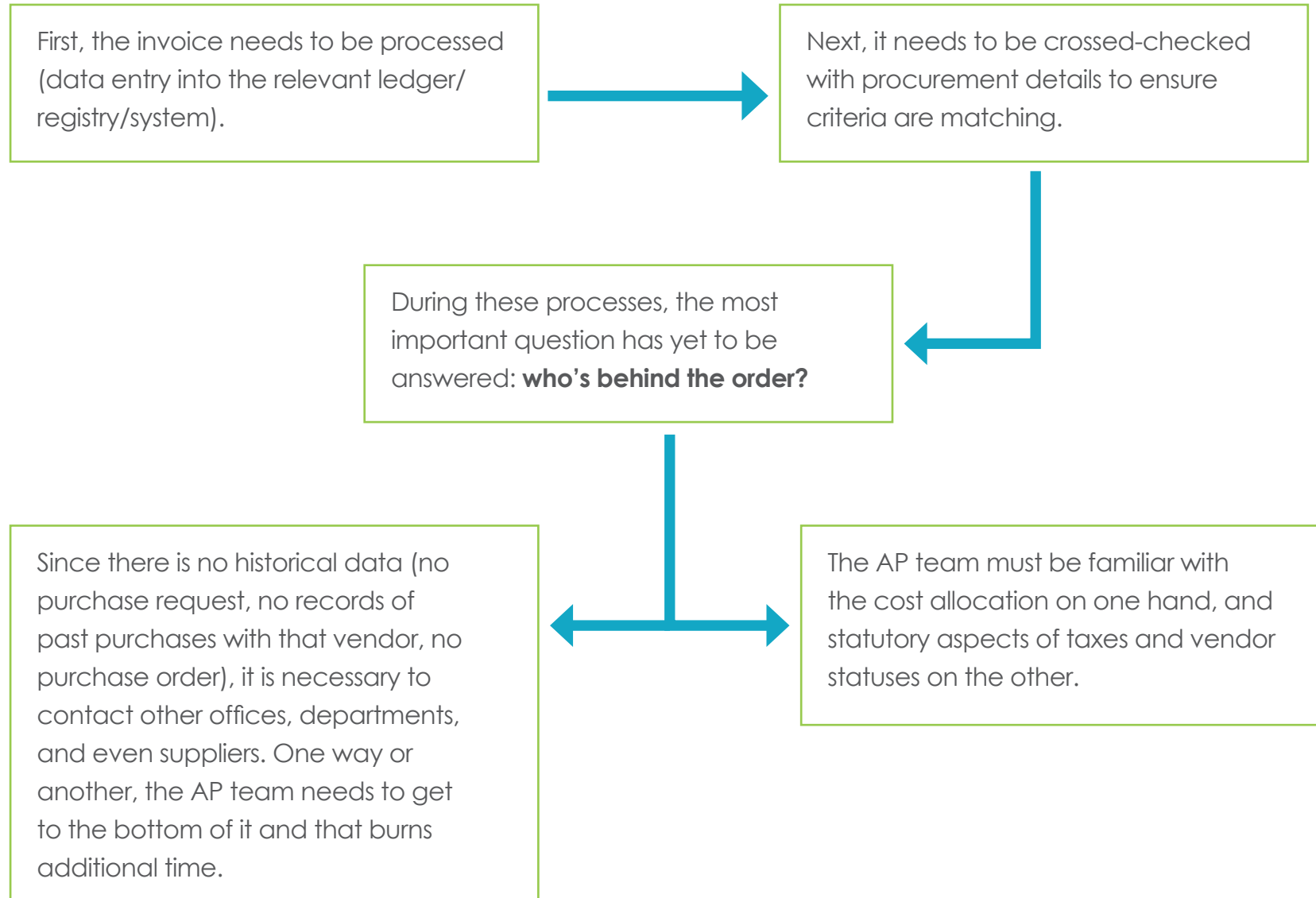


### A TYPICAL SITUATION:

AN INVOICE ARRIVES. NO ONE KNOWS ITS HISTORY OR EVEN A REASON FOR EXISTENCE. NOW BEGINS THE DETECTIVE WORK.

This is the event that triggers chaos in AP due to the sudden overload. The result is excessive time expenditure during filing and, potentially, executing such a rogue invoice.

In practice, this is how such an event rolls out:



All that time, AP teams must remain focused on processing regular invoices because delays can cause disruption. With rogue invoices circulating, the problem escalates because it is also necessary to find out who is authorized to approve a certain invoice. That alone eats up additional time because that person needs to be a) located, and b) notified.

During the pandemic, lots of organizations opted for the hybrid model and have most of the workforce working from home. This makes these quests harder because it is highly questionable whether the AP team has the contact information of the person responsible for authorizing the payment.

And here's where things take a disturbing turn. Another urgent invoice arrives so **the AP team immediately drops the half-processed one.**

### The possible outcomes of such chaos are:

- **Double payments** (For example, we were paid TWICE by a large conglomerate for the same expense management project service! It wouldn't be such a big problem if the conglomerate had implemented a policy that deals with such errors. Without it, all hell broke loose, and it took several days and over a dozen back and forth cross-company and cross-department emails to, eventually, solve the problem.)
- **Paying before service delivery**
- **Paying without supporting documents for a claim**
- **Overpaying**
- **Paying to the fraudsters**
- **Delayed accounting, wrong expense accounting, wrong cost center allocation, etc.**
- **A constant need for reconnaissance because something doesn't match something else**
- **Statutory problems if withholding taxes/applicable taxes are wrongly calculated**

## 2.2.1 HOW TO SOLVE THESE PROBLEMS

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We are, again, going through three primary domains, starting with **People, Culture & Skills**.

To begin, we need to answer a few key questions:

- ▶ Is there a culture of meeting **time commitments** made to suppliers for payments?
  - If yes, are those commitments fulfilled?
  - Are there **metrics** in place to ensure deadlines are met?
- ▶ Is there an organization-wide paradigm that a supplier that follows up should be prioritized for faster payments?
- ▶ Is a supplier a *customer* instead of a vendor to the AP team?

There is a shift in how organizations are experiencing their suppliers. It is the paradigm of a **supplier-as-a-customer** and not simply a vendor. This change radically improves the company-supplier relationship. Subsequently, a supplier starts prioritizing such an organization.

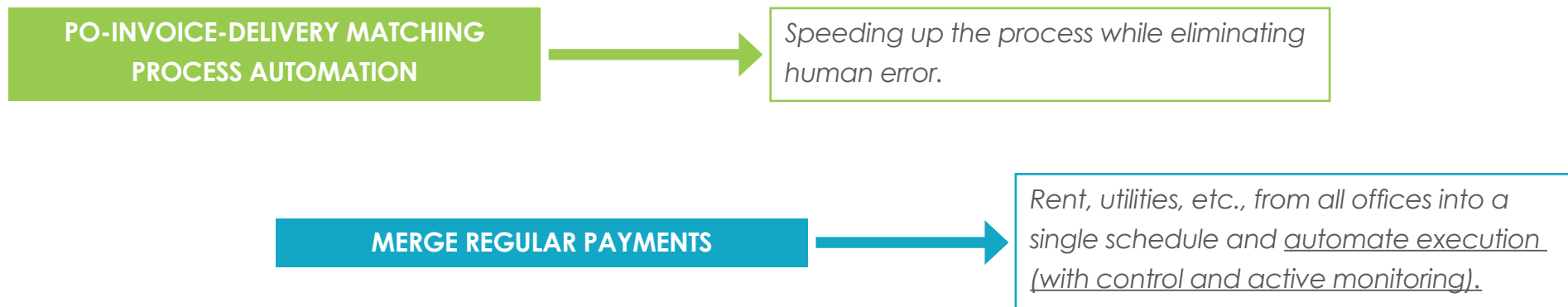
So it's not just about meeting payments deadlines anymore. It's also about building trust with suppliers on a whole new level where we perceive vendors as valuable clients just like they perceive us.

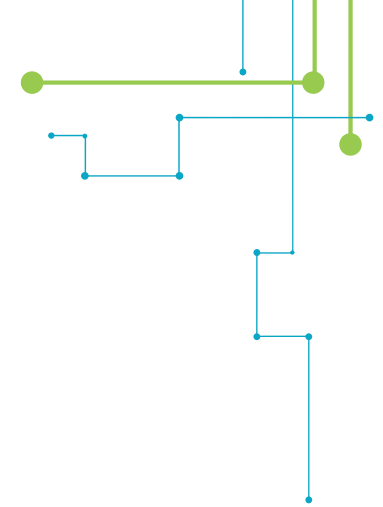


Now we are moving to the second domain, **Process & Best Practices**, where we are focusing our efforts on several key and mandatory policies:

1. **Segregation of duties** across Procurement and AP teams. In other words, a person who procures, should not even be able to see the invoice, let alone execute a payment.
2. **No PO, No Invoice Payment** rule
3. Institutionalization of the **Supplier Empanelment process – Know Your Supplier**
4. **Centralization of ALL payments** --across departments, office locations, and systems.
5. Structuring and defining the **employee expense reimbursement policy**

Finally, in the realm of **Tools & Automation**, we want to automate as much as we can (ideally, everything):





**RECORD EVERY PAYMENT AGAINST  
AN ITEM CODE + GL CODE**

*NOT JUST a GL Code! This approach allows recording at a granular level. That way, audits are meaningful, and frauds can be prevented. If, on the other hand, you record only at the GL level, you lose precious info.*

**ASK SUPPLIER TO ENTER THE INVOICE  
ON THE DEDICATED PORTAL**

*This approach mitigates the risk of frauds from the source. There is no paper/mail communication.*

**NOTIFICATIONS**

*Notify that an invoice is waiting for approval*

**REMINDERS**

*Remind that an invoice is not approved yet.*

**SIMPLIFY APPROVALS**

*By making it easy for an approver to approve by giving relevant information*

*By providing tools like email approvals*



## ESCALATION SYSTEM

*For approvals that are nearing deadlines*

## CHECKLISTS

*Ensures that if the checklist is not followed, the system will not process the invoice.*

## ACCOUNTING ENTRIES AUTOMATION

*To increase the overall efficiency*

## PROVISION COMPUTING

*Compute provisioning entries for upcoming expenses so that the P&L is always accurate*

## DUPLICATES CHECKER

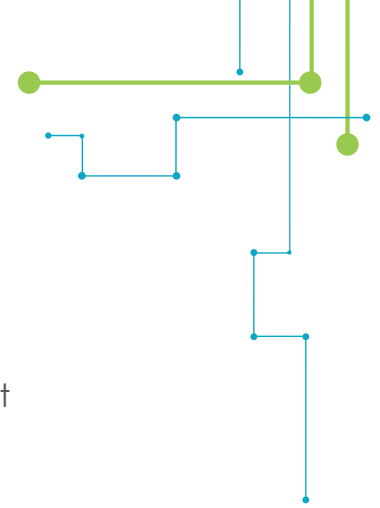
*System check of duplicate invoices*

*System check of suspected duplicates*

## CONTROLLING MASTER DATA

*Especially those involving suppliers*





## 2.3 FRAUDS & SCAMS

Employees cannot be the only line of defense. Organizations must implement tools & processes to fight fraudulent attempts.

### Business MAIL/EMAIL Scam

#### EXAMPLE 1

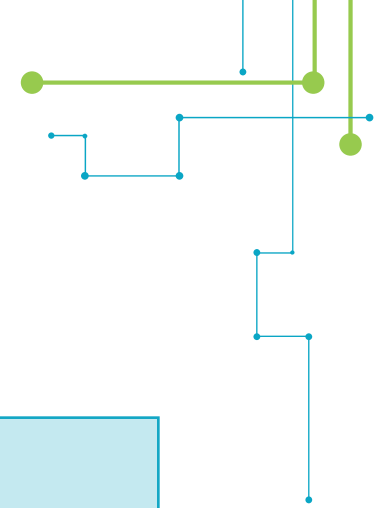
*An impostor impersonating a CEO is requesting immediate payment to a vendor Z while justifying the request with a misleading claim (e.g., "I'm currently offline") and creating a false sense of emergency (e.g., "The price will go up in six hours").*

### PREVENTIVE MEASURES:

1. Extensive staff education on cybersecurity and common phishing schemes
2. System administrators maintain high-level of systems' security

#### SOLUTION

A well-defined **Zero-Tolerance Policy** that makes it impossible for anyone to manipulate a predefined PR → PO → INVOICE → PAYMENT process. In other words, a centralized AI-based Procure-to-Pay system that disallows any tempering and automatically rejects suspicious activities.



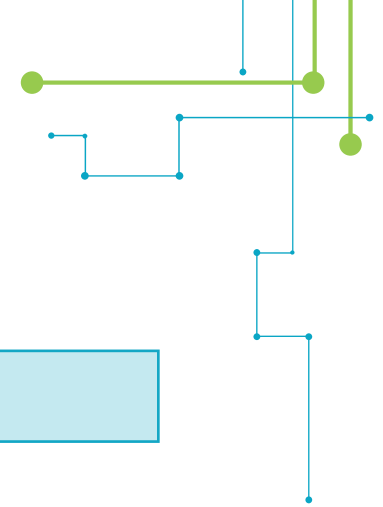
## Fraudulent invoices/orders from suppliers

### EXAMPLE 2

*An invoice arrives from a known supplier, requesting payment for the shipment of ink cartridges delivered two weeks ago.*

### SOLUTION

Digital transformation of a vendor cycle from procurement to payment with a cloud-based and AI-driven system that automatically rejects payments without relevant purchase requests and orders. The machine learning component of the **AI ensures that usual supply cycles are unbroken.** If such an attempt occurs, the system immediately raises the alarm and suspends the payment request.



### EXAMPLE 3

*A purchase order arrives that looks identical to those of a known company.*

## PREVENTIVE MEASURES:

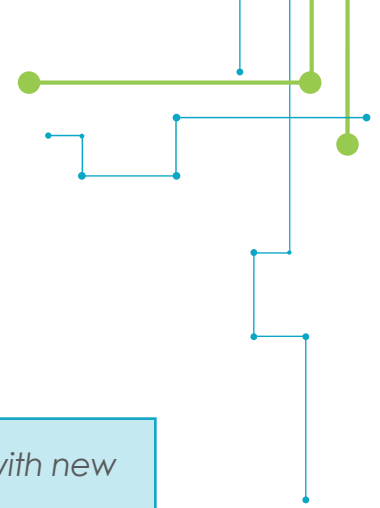
1. Take note of urgency in a request. If it exists, double-check everything.
2. Educate the staff to rely on common sense rather than automated responses. If something does not look right, orders need to be checked.
3. Staff education in the field of cybersecurity relative to cross-checking URLs, URIs, and HTML email headers of suspicious communication.

### SOLUTION

**DIGITAL SUPPLIER PORTAL, a central digital workspace for suppliers** to:

- ▶ View all the information they need during the execution of a contract
- ▶ Submit invoices, and
- ▶ Track payment status.

By using dedicated central portals for suppliers, companies don't need to worry about fake orders because the system requires relevant business information.



## Re-Routed Payment Info

### EXAMPLE

*A scammer hacks a supplier business email and send a note of a change in bank details. Then invoice arrives with new bank details and prior email correspondence between the company and supplier.*

These are the hardest scams to recognize because they are using the genuine supplier email account and contain the history of communication. The only suspicious detail is the sudden change in bank details.

## PREVENTIVE MEASURES:

1. Immediately contact the supplier via a known phone number to verify the change
2. Create a multi-person approval process for a certain transaction threshold

### SOLUTION

**An automated invoice-to-payment system** that ignores any unofficial requests and executes payments according to a strict set of rules. Any change needs to be authorized and information updated only after receiving an official request.



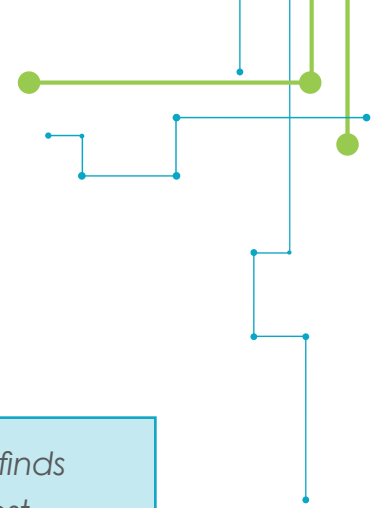
## Insider Scams

Typically, these scams involve fixing contracts to pay higher prices, fraudulent purchase orders, and invoices, or requesting payments to phantom companies.

Unfortunately, they cannot be prevented because they are committed by the company's employees. The damage, however, can be minimized with regular audits.

### SOLUTION

Implementation of a central **Strategic Sourcing Software that includes RFX Management, Reverse Auctions, and Supplier Empanelment**. Due to a rigorous set of rules based on reverse auctioning and suppliers' metaverse, it is impossible to fix the contract or issue a fraudulent purchase/invoice order. At the same time, the supplier empanelment module prevents payment requests to ghost companies.



## Dormant PO Misuse

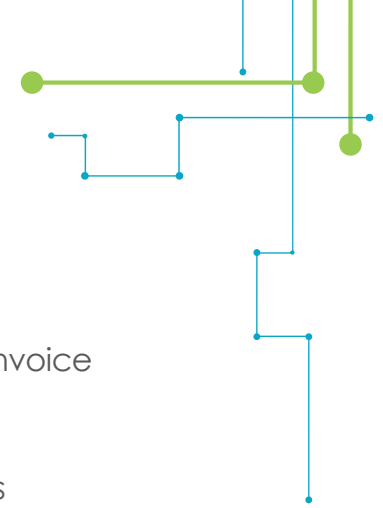
### EXAMPLE

*A PO is filed a year ago. It was partially fulfilled and has 50% of the total value pending. A company employee finds a PO, engage in scheming, and, finally, manages to get the remaining 50% approved and transferred to a ghost company bank account.*

Dormant PO misuse is a common fraud, especially in mid- and large-sized organizations with decentralized procurement systems that rely on standard ERPs. Such ERPs are predominantly created for accountants. As such, it is close to impossible to adjust them for procurement and accounts payable.

### SOLUTION

**The only viable solution against these types of fraud is the centralization of procurement processes and implementation of a digital system that is operating on a set of predefined (mandatory) rules and AI-powered approval methods.**



## The invoice with PO and a one-off

Another common fraud is sending an invoice against the existing purchase order and then repeating the same invoice only this time, without the relevant PO.

This scam is exploiting human error caused by the work overload and common practice of automated responses (i.e., an employee automatically executes payment because his or her mind remembers seeing an order that goes with that particular invoice).

### SOLUTION

Remove the human factor from the equation by implementing a centralized digital Procure-to-Pay system. The system rechecks the invoice, identifies the corresponding order, connects that order with the payment that has already been made, and, ultimately, rejects the invoice.



## Duplicate Invoices

In analog, decentralized procurement systems, double spending is happening all too often. An invoice is seemingly lost, an employee requests a duplicate, and then both are processed by the AP team.

For as long as there is a human factor involved in a process, this is unavoidable.

The consequence is coming out unethical if the partner company doesn't have a system in place that is effortlessly dealing with double payments,

But, this can also become a part of an elaborated scheme:

### EXAMPLE:

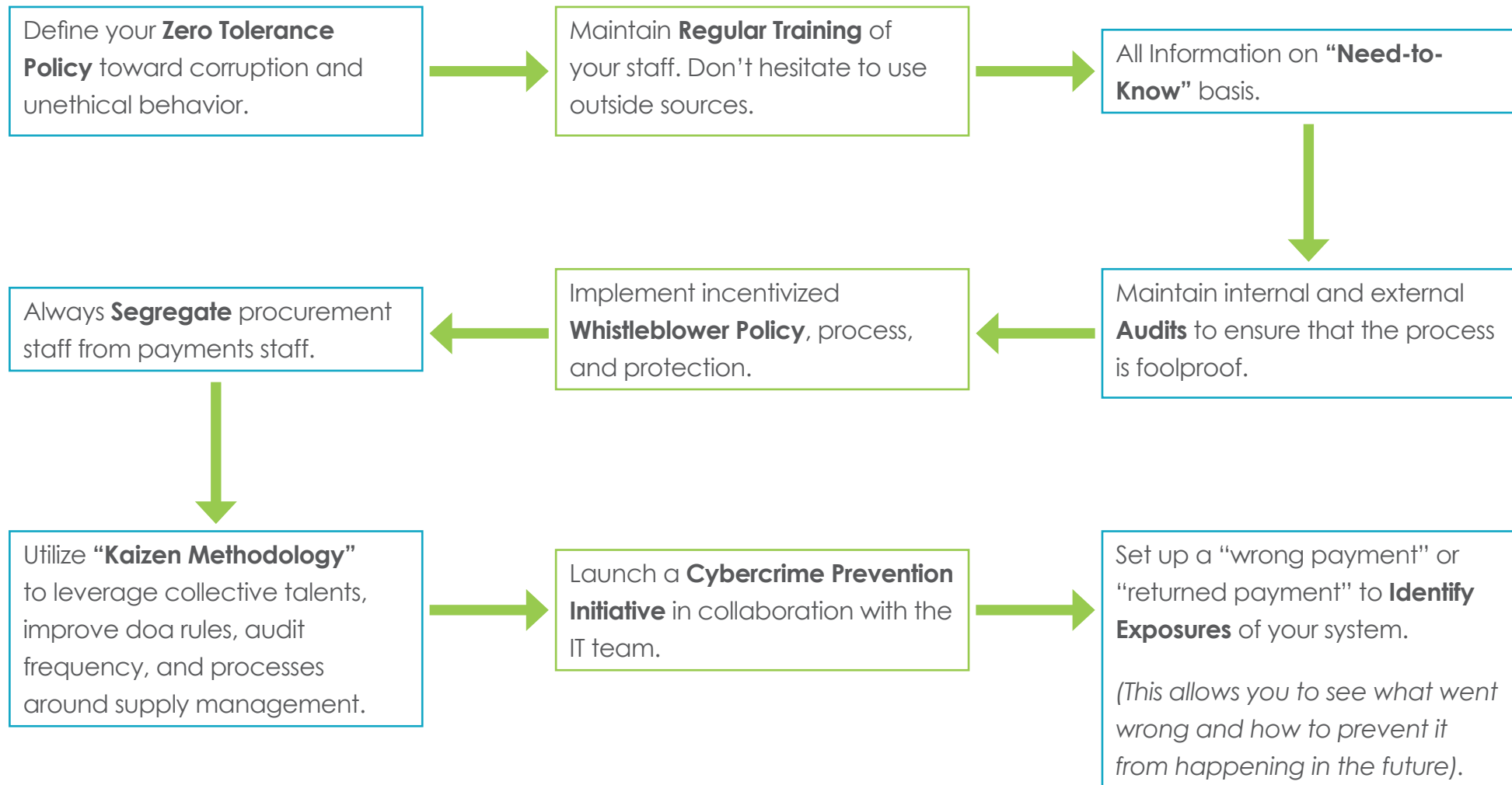
*An employee of a partner company requests a copy of an invoice that your company had issued for a service under the false pretense that it had been lost. The next step is to subtly change the bank details, file the invoice, and wait. Eventually, a human error will, eventually, do the rest of the job.*

### SOLUTION

Eliminate any backdoor approval methods and use ONLINE processes exclusively because they are auditable and rely on an elaborated delegation of authority with clear segregation of duties.



### 3 ADDITIONAL TOOLS & METHODS TO CONTROL SPENDING



In the end, it comes down to culture.

Therefore, if we:

- a) Train and incentivize our staff to be aware of frauds and malpractices, and
- b) Assign accountability to make them feel personally responsible,

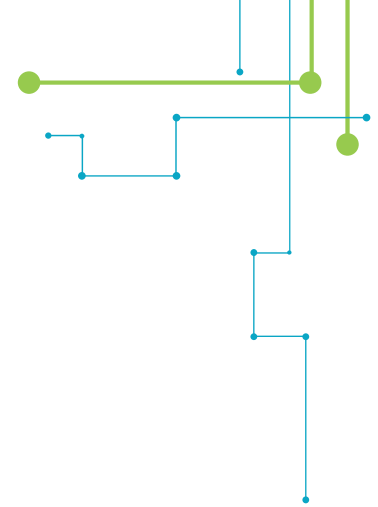
They will prevent, detect, and reveal such events.

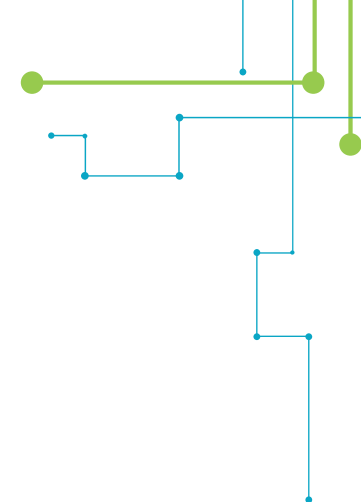
## 4 KEY TAKEAWAYS

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- ▶ Prevent, pre-empt
- ▶ Keep it granular, not high level (data & DoA)
- ▶ Rely on the Kaizen methodology to constantly enhance processes and control
- ▶ Automation as a way of life - automate whatever you can
- ▶ Audit quarterly at least
- ▶ Train, train, train (e.g., What is the policy? What are the rules?)
- ▶ De-skill and, instead, make it process-dependent not people-dependent

With the right kind of automation that encapsulates the entire multiverse of optimized underlying processes, **cost-saving is imminent and substantial.**





IF YOU SUSPECT THAT DISSIPATION HAS CREPT INTO YOUR COMPANY'S  
EXPENSES UNDETECTED OR THAT IT IS DUE TO HAPPEN,

**CONTACT US TO SCHEDULE AN ADVISORY SESSION WITH OUR EXPERTS.**