

How to prevent fake supplier type frauds by implementing comprehensive invoice management processes

by

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Extract

The typical approach towards invoice management processes involve process start from the arrival of a supplier invoice. Depending on the process design, the invoice should be identified, categorized, filed and matched against a PO by the person who was responsible for the order. After these steps the invoice is usually transferred to the financial department and the sum is paid. The problem with this process is the lack of comprehensive cost management, which should involve the following checkpoints and controlling points:

- Was the person who ordered item eligible to place the order?
- Was the PO approved by a responsible person?
- Can the PO or invoice be linked to an existing supplier contract?

Comprehensive invoice management processes therefore shall involve the above mentioned checkpoints in order to ensure that no fake suppliers can issue an invoice and get paid. This has happened to tech giants [Facebook and Google with a total sum of 100 million US dollars](#), hence the danger is real and shall not be overlooked.

Comprehensive invoice and procurement management

It is really easy to see that the arrival of a supplier invoice is preceded by a number of business activities which altogether lead to the event mentioned. The most important thing is to extend the concept of invoice management to various preceding operations:

1. Budgeting
2. Supplier tendering and choice
3. Supplier contracting and framework contracts
4. Eligibility management – who is entitled to order certain type of goods and what is the limit for ordering
5. PO management processes – Purchase orders shall be approved even in case eligibilities are in line with the rules set in company policies
6. Linking contract, PO and invoice data – enabling automatic invoice approval or denial
7. Inspection of the arrival of ordered goods or services
8. Feedback to suppliers and internal staff

These operations shall be carefully modeled and executed in order to eliminate any possible fraud occurring in procurement processes, which are almost always preceding invoice management processes.

Budgeting processes

It is always a great debate in a company's life to allocate financial and other resources. As resources are usually limited, yet all departments try to get the most out of budget allocation, it might be a long process to collate all interests in a way that satisfies most participants while serves the interests of the company the best. On the other hand, budgets shall be rational, sufficient and accessible for reasonable costs. Budgeting processes shall always come to an end with results which enable optimal operations for the company while being as convenient to the workforce as possible. The result of budgeting shall be incorporated into foreseeable procurements, which are mostly reoccurring, continuous supply orders such as stationeries, marketing costs or sales expenses. To make our example the possible clearest, we narrow our discussion to the management of such reoccurring costs.

Supplier tendering

Supplier tendering is also a process, at least in my approach. Possible suppliers shall be selected, then a shortlist is made, shortlist members are approached and bidding may begin, then a winner is chosen. From an invoice process management point of view, the most important part of this process is the end result: which supplier is chosen and what business details needs to be used in the following processes? Data generated here – as the winner is chosen – can be used later at the contracting phase, such as: supplier name, supplier ID, bank account number, contact persons, other responsible persons, prices, delivery details, to mention just a few. A robust process management system shall be able to automatically generate a supplier contract or a frame agreement from this data, using standard document templates. In the next sections I will focus on frame contracts, as this type of contract is usually used for procurement periods.

Framework contracts

Once the budgets are allocated, and the supplier is chosen, it is most practical to sign a framework contract for the given procurement period. In this case, the contract contains all data necessary from a procurement standpoint, and also the exact amounts to be spent during the agreed timeframe. The latter can be most important, as procurements are usually distributed evenly during the timeframe in question. In case this process is also managed in a robust process management system, it shall be able to send alerts if the budget spent is not in line with the timeframe. For example, if the timeframe is one year, yet say 80% of the budget is spent in the second month from start, the system shall recognize that discrepancies are present in the procurement timing. Such alerts may prevent overspending or running out from budget before the allocated timeframe expires; also it can help spotting suspicious procurement and payment patterns, which may be fraudulent.

Eligibility check

Also it is most important to limit employee access to procurement processes. A large enterprise might lose huge amounts of money – such as Google and Facebook in the mentioned example – in case everyone in the company is entitled to order whatever they want. Usually the distribution of purchasing eligibilities is rather sophisticated:

- Who may order what? (Why should the cleaning staff be able to order computers and why should the IT department be able to order detergents?)
- What are the purchasing limits for given business functions?
- What sort of purchases shall be approved by who?
- What purchasing value shall be approved by the unit leaders, the board or the CEO?
- And many others as needed in the enterprise.

Following the decision about and distribution of eligibilities, parts of the workforce become entitled to make purchase orders. However, such purchase orders (from now on: POs) shall also be approved before orders can be placed. A large enterprise procurement or workflow system shall be capable of automatically generating a PO from a procurement request, while also checking eligibilities before sending a procurement request to PO approval.

PO management processes

POs shall also be approved by respective responsible persons before an actual order can be placed. Such approvals can be complex: 2-4-X eye approvals, serial or parallel approvals, automatic approvals based on business rules and so on. It is always the best way to manage these approvals in the same system where the preceding processes were managed. In case a PO is approved, the order can be placed – even automatically – and the sum of the order shall be deducted from the budget, considering the timeframe as mentioned previously. Once the order is placed, delivery of the goods or services is expected, yet there is a really important checkpoint before that: checking whether everything is in line with the data included in the preceding documents – this should be done automatically by a workflow, ERP or other procurement system.

Linking contract, PO and invoice data

All relevant data in the preceding documents shall be in line, as a number of checkpoints and alerts are included in the previously mentioned processes. On the other hand, once the supplier invoice arrives, the very first step of the invoice management process shall be checking the invoice data – especially sums and deliverables – against PO and contract data respectively. In today's workflow and procurement systems this step can also be done automatically in case actual invoice data is available and preceding data is known to the system. This is the most important, last check of the invoice and the sum to be paid, as this is the last point where actually losing money can be prevented. Once this check is done, the very last check should be done by human workforce: inspecting the delivered goods or services for good performance. Hence the system that matches invoice data against PO and/or contractual data shall deliver a task to the responsible person along with the purchase data to inspect the delivery.

Inspection of the arrival of ordered goods or services

This inspection usually should be done by logistics staff in order to ensure that the order has been delivered properly, without issues, deficits or defective goods. But what exactly should be inspected? In order to inform the staff about the requirements of certain orders, most of the above discussed data shall be transferred to them before the actual inspection takes place, such as:

- What goods are to be received?
- What amount of goods shall be received?
- Are there any documents that shall be received?
- Are there any special requirements pertaining to the goods, such as refrigerated delivery, or other specialties?
- What defects shall be paid attention to beyond the obvious? (eg. in case camera lenses are delivered, it can be important to check the lenses are not vaporous on the inside, etc.)
- Others as needed.

Feedback to suppliers and internal staff

It is most important to provide feedback about the inspection results to the supplier and the requestor alike. Since the supplier shall be informed about the acceptance of the delivery or any defects unfolded, the requestor shall also gain knowledge about the status of their orders (especially in case the ordered goods are needed for an ongoing project). Also, the acceptance of the delivery serves as a ground for payment, so this is the key to get a supplier invoice paid or denied, since most businesses will not pay any invoice in case the delivery has any defects. All in all, the invoice management process ends here, as actual payment is a task of the finance department and shall be managed in other processes.

Conclusion

Summing up the above defined comprehensive invoice management process, it is clear that managing incoming supplier invoices from the point they arrive is not a viable option for most companies. Having supplier invoices linked to contracts, POs and approval processes is the key to prevent frauds mentioned in the prologue of this essay. In case these steps, alerts and checkpoints are avoided, it is not only easy for criminals to request payments through issuing false invoices, but also leads to less protection against defective deliveries and internal abuses. I absolutely recommend to all businesses to have their procurement processes managed the way described here as in my experience, literally tons of money can be saved by implementing such comprehensive invoice – and procurement – processes.

About the author

Zsolt Szederkenyi, CEO of xFLOWer Inc. is a process expert with more than 20 years of experience in the field. His company, xFLOWer Inc. is the developer of the globally distributed xFLOWer workflow system, used by large enterprises from around the globe. MetLife, Groupama Insurance, members of The Liberty Group, Friesland Campina, and European retailer giant Auchan are just a few examples from the clients of xFLOWer group, relying completely on the system in their daily operations. Zsolt founded the company in 1997 and took an active role both in development, business and process management activities. It is not an exaggeration to state that he saw basically everything business process related at large companies and some smaller clients alike. Relying on his expertise in the field, he is currently focusing on the popularization of process management best practices besides being an invited lecturer at prestigious European universities.