



WHITE PAPER

10 Expense Management Best Practices

OVERVIEW

Whether you are planning to write your first travel and expense (T&E) policy or you are a corporate travel veteran who has had one in place for many years, it's always good to look outside your own organization and see what other world-class organizations are doing to effectively manage their employees' spend. This enables you to refine and enhance your own expense management program and incorporate these best practices.

However, you can't simply hope to copy other organizations' programs. Best practices need to be defined, implemented and enforced in order to have a successful expense management process. In particular, manual processes need to be automated in order to reduce costs, improve accuracy, enhance consistency and increase operational efficiency.

This paper discusses 10 of the most effective expense management best practices, which have been collected first-hand from a wide range of organizations.

1. Require Pre-Approvals

Simplicity is the key to user adoption and drives the accuracy of expense reporting. Mandating pre-approvals can greatly reduce the opportunity for over-spend – either inadvertent or through deliberate expense abuse. Pre-approvals often work in conjunction with a corporate purchasing card, such as for office supplies, or a travel booking system. Although employees can browse and select their items / tickets, they can't purchase until approved by a supervisor. These systems work by alerting approvers of a purchase request (who can change, dependent on the size of the purchase, per the organization's policies), who must then give their approval to make the purchase.

2. Build an Accountable Plan

According to the IRS, to be considered having an accountable plan, your reimbursement or allowance arrangement must include all of the following rules.

1. **The expense must have a business connection.** Deductible expenses must be incurred while performing services as an employee on behalf of the employer.
2. **Expenses must be submitted promptly.** Expenses must be adequately accounted for within a reasonable period of time.

3. Overpayment of expenses must be returned in a timely

manner. Any excess reimbursement or allowance paid to an employee must be repaid to the employer within a reasonable period of time.

If your company fails to demonstrate that it has an accountable plan, employee expense reimbursements may be considered as taxable income and as such, you will need to provide them with a 1099 for those expenses.

The trick here is that the definition of 'reasonable period of time' depends on the facts and circumstances of the situation. However, actions that take place within the times specified in the following list will be treated as taking place within a reasonable period of time.

- An advance is received within 30 days of the time an expense is incurred.
- Expenses are adequately accounted for within 60 days after they are paid or incurred.

- Excess reimbursements are returned within 120 days after the expense is paid or incurred.
- An employee provides an adequate accounting of outstanding advances within 120 days of receiving a periodic (at least quarterly) statement.

As an additional requirement in developing an accountable plan, IRS Code Section 274(d) states that substantiation requires an employee to submit the following items with adequate records (such as receipts):

- Amount of the expense.
- Time and place of the expense.
- Business purpose of the expense.
- Business relationship of the employee to the persons receiving a gift, being entertained, or utilizing a facility or property.

Given all these rules and regulations, it's extremely important that organizations review their corporate travel policy and guidelines documentation with employees on a regular basis as updates occur, or at least on an annual basis.

3. Initiate a Corporate Card Program

If the idea of employees carrying around corporate credit cards conjures up images of reckless spending and big-ticket liabilities, you should take a deep breath and possibly reconsider your position. Today's corporate card programs are plentiful and highly competitive to the point where they offer numerous financial and operational benefits. Here are just a few of the many benefits a good corporate card program can offer:

- Financial incentives and rebates for all purchases. Corporate cards offer a cashback rebate for all spend, which can deliver significant benefits - in fact companies receive six-figure rebates on their annual corporate card purchases.
- Corporate cards reduce the cost of expense report handling. By integrating credit card data into T&E systems, the need for employees to rekey their expenses is eliminated and the accuracy of the captured data is improved. Many companies don't require a receipt for anything under \$75 if a corporate

card is used to make the purchase. This reduces the time employees spend creating expense reports, and the time approvers spend ensuring compliance.

- The use of corporate cards reduces the number of falsified receipts. Reports show that 25 percent of expense claims have fraudulent receipts. An example of this is a dinner bill for \$100 that includes a 10 percent tip, but the employee turns in a claim for a 20 percent tip. On a corporate card, an overstatement of an expense like this would be caught.
- Carrying a corporate card eliminates the need for cash advances, which not only streamlines processes for the organization but also eases the process for the travelers themselves.

A common concern employers have about corporate cards is that employees can incur charges on their corporate card (and therefore company liability), then delay submitting the expense reports associated with those charges. This fear can be mitigated by using a 'carrot and stick' approach that can help keep employees motivated to submit expenses promptly.

For example:

Offer employees the 'carrot' of convenience. The corporate card is a convenient tool when integrated with your T&E system. It offers a great deal of convenience to the employee by automatically downloading those expenses, taking the tedium of data entry out of expense report creation.

Remind employees through your expense policy—the 'stick'—that legitimate business expenses will be paid by the company provided they submit timely expense claims for those charges. Reinforcing a policy that denies reimbursement of expenses for late submissions, regardless of whether it's an employee liability card charge or a company liability card charge, is usually plenty of motivation for most users.

One industry survey on corporate card programs cited the number one benefit for implementing a corporate card program was to increase the convenience for employees. When employers were asked the same question one year later, the top benefit shifted to cost control. A properly executed corporate card strategy provides both benefits.

4. Automate Policy Enforcement

Many organizations describe their pre-automation process as one that includes a resource intensive audit, where the accounts payable staff manually review each expense item to see if it is compliant with company policies. Often this task involves several employees who could be adding much more value to the organization in other ways. By applying expense policy compliance rules through the use of a 'rules engine,' all expenses are validated upfront against corporate expense policy, governmental policies, and even client billable policies for professional services organizations.

With an automated process, when an employee (or their delegate) enters an expense that is not compliant with policy, the expense item is immediately flagged. Depending on the type of infraction, the employee may be asked to provide an explanation. Approvers determine the outcome or may remove the item from the expense report altogether. If personal items are charged to a company paid corporate card, expense owners can mark the item as personal, in which case the expense is automatically deducted from their out-of-pocket reimbursement.

It costs organizations an average of \$26.63 to manually process an expense report. With a fully automated expense management system that cost falls to \$6.85.

PAYSTREAM ADVISORS, 2016

5. Clearly Document the Approval Process

Many organizations' expense approval processes are poorly recorded and somewhat haphazard, which can lead to reimbursement delays and other inefficiencies. By taking a step back and thinking about roles, responsibilities, and delegation of authority, it becomes easy to build an approval matrix that can be automated within an expense management solution—particularly one that employs a sophisticated business rules engine that can handle virtually any combination of criteria.

Approval routes can be built based on hierarchy (e.g., manager, director, VP), dollar threshold escalation, expense allocation coding, attributes of the expense owner, and many additional criteria. Typical approval routing should have between two-to-four levels of approval. Too few approval levels and firms may not be adequately reviewing their expenses. Too many, and it becomes complex to execute and maintain. Most companies prefer accounts payable staff serve as the final step in the approval process before the approved voucher is exported to the financial system for payment.

6. End Penny-Wise-and-Pound-Foolish Audit Practices

Auditing expense reports can uncover a wide variety of issues presented by travelers to support their expense claims. The following examples are among the top issues reported by accounts payable professionals:

- Laundry expenses are submitted for trips below the duration threshold for being a reimbursable expense.
- Excessive tipping.
- Hotel expenses (e.g. mini-bar, movies, room service) that are not reimbursable under company policy.
- International expenses are reported at inflated exchange rates.
- Meal/entertainment participants include the expense owner's supervisor, who also approves the expense.
- Imposed per diem limits based on statutory or corporate requirements are difficult to validate.

Auditing 100 percent of expense reports is poor use of time and resources and gives the finance team a false sense of security. To ensure an effective auditing practice, accounts payable groups need to take a more methodical and calculated approach. An important decision to make is who is performing the audit: accounts payable or audit staff? Organizations need to determine a statistically valid sample size for auditing and then have auditors—not accounts payable staff—meticulously examine expense reports and receipts. This analysis should cover the details of the current report and a three- to six-month range of expenses for a specific expense owner.

Expense owners who fail the audit should be assigned to a risk category, for examples rated from 1-5. Someone who is assigned risk category 5 would have all of their reports audited, where expense owners assigned risk category 1 would only have every tenth report sampled for an audit. Each organization needs to determine their appropriate statistical sampling.

When an audit is completed, audited expense owners should receive an email informing them of any issues that need to be reviewed or congratulating them on being in compliance with firm policies and guidelines. Conducting independent audits and discussing the results with employees has the power to change behavior across the organization. Good news travels fast and news of getting your expense reports audited travels even faster!

7. Help Employees Make Good Decisions

How often do people cheat on their expense reports? While 94 percent say that they submit accurate expense reports, almost six percent admit to deliberately falsifying reports, with an average annual amount of more than \$2,000. One of the oft-cited reasons for cheating is that employees feel that traveling for business is an inconvenience and they should receive additional compensation. Others state that there were other expenses they forgot to enter on a prior expense report, for which they never received reimbursement, so this “evens things out.”

Items to consider to reduce expense fraud:

- Require one expense report per trip so expenses are easier to track.
- Issue corporate credit cards to frequent travelers. This reduces the risk of the firm never receiving credit for cancelled flights, as well as other types of potentially fraudulent transactions.
- Implement an expense management solution that can automatically identify many types of attempted expense fraud.
- Do not allow future dated travel that is not charged to a corporate charge card.
- Establish a policy that requires the most senior employee at a meal to pay the check.

Employees who submit expenses using hard-copy receipts and spreadsheets are more than twice as likely to commit fraud than employees using automated expense management solutions.

CHROME RIVER, 2018

8. Centralize the Travel Expense Process

Prior to implementing an automated expense management solution, most organizations describe the huge amount of manual intervention that is required to properly validate expenses against company policy and ensure these expenses are routed to the appropriate approvers prior to payment. In large organizations, this can add up to considerable numbers of people spread across business units, regions, and offices. The bottom line is that it costs a lot of money in organizational capital to support this business process, which can also create a lack of consistency and process continuity. By implementing an automated expense management platform, a consistent, programmatic approach replaces a substantial amount of human intervention:

- Expenses are validated against corporate policy at the time of expense entry, and employees can either be prevented from submitting a non-compliant expense ('hard stop') or they can be required to provide an explanation that will allow the approver to decide if full, partial, or zero reimbursement should be provided ('soft stop').
- Approval routing rules are applied based on attributes of the expense items or the entire report itself (e.g. allocation department, cost center, project, matter, grant, amount). By employing a rules engine, the combinations of standard routing and exception routes are almost unlimited yet easy to create and maintain.
- Possible duplicate expenses can be flagged at the time of expense entry or audited as part of analytics reporting.
- Approvers can now focus on ensuring that proper allocations were provided for the expense and spend is appropriate, versus having to worry about compliance to company policy.

- Accounting and/or accounts payable can be inserted as the last “approved for payment” approver and have complete visibility to any policy violations, explanations, management approvals, notes and threaded dialogue included along with copies of all receipts.
- Following final approval, approved expenses are automatically transferred to the organization’s financial system and no longer have to be re-keyed into the financial system for payment.

It’s extremely important that organizations review their corporate travel policy and guidelines documentation with employees on a regular basis as updates occur, or at least on an annual basis.

9. No Cutting Checks

In addition to being an unnecessary use of natural resources to create and mail hard copy checks, doing so also has the potential to undo some of the benefits you derived from automating everything up to that point. Organizations engaged in best practice expense management behaviors are moving toward an automated ACH or EFT payment of all expenses. Here’s why:

- **Reduce duplicate payments and fraud:** Potential for duplicate payments and fraud increases when expenses are paid by check.
- **Reduce processing time:** The processing time for purchase, payment and reconciliation is reduced significantly as the overall AP process becomes more efficient.
- **More timely payments:** An important accompanying benefit of reduced processing time is more timely payments that can result in more satisfied employees.
- **Streamline reporting:** Electronic payment data reporting improves information flow by reducing the need for manual inputs while increasing reporting accuracy and improving process efficiency.
- **Improve spend analysis:** More comprehensive electronic data reporting on company payables improves company spend analysis and fosters better expense management.

- **Enhance compliance:** The automation generated by electronic payments increases the transparency of the AP process and fosters greater compliance with company policies, procedures and IRS regulations.

10. Leverage Your Leverage

Once an automated expense management solution that includes some or all of the best practices mentioned above is implemented, it is time to ‘leverage your leverage’ through the use of analytics and business intelligence reporting. The fact that thousands or millions of spend dollars flow through this highly visible environment provides an outstanding opportunity for financial and operational improvements, such as:

- Analyzing spend by expense category to uncover opportunities for ‘strategic sourcing.’ By evaluating total spend on certain types of expenses (e.g. hotels, car rentals), it may benefit an organization to develop a preferred relationship with one or more key suppliers. Knowing volume and being able to commit some of that volume are the keys to driving significant savings that often exceed 20 percent of total spend.
- Reports that pull together in-process credit card and out-of-pocket spend that are not yet exported from the expense management tool to your financial system can provide tremendous insight into accruals and assist with period-end close.
- Aggregating all expenses that are associated with sales and business development activities can provide meaningful insight into cost of sales and the ROI associated with various types of sales activities. Further to that point, tracking sales expenses associated with certain types of customers (e.g. health care practitioners) can be critical when managing compliance to government and legal requirements such as the Sunshine Act.
- Key Performance Indicators such as open approvals aging can help spot and remedy bottlenecks in processes that are causing delays in reimbursement cycle times. Compliance reporting can help spot individuals and groups that are at higher risk for policy violations, as well as provide meaningful insights into which company policies may require further education and training.

SUMMARY

1. Require Pre-Approvals

Incorporate 'pre-approvals' before the expenses are incurred. "Cost avoidance savings" means finding ways to avoid costs before they are incurred.

2. Build an Accountable Plan

According to the IRS, to be considered having an "accountable plan," reimbursement or allowance arrangement must include many rules.

3. Initiate a Corporate Card Program

Today's corporate card programs are plentiful and highly competitive—they offer many financial and operational benefits such as rebates, elimination of cash advances and reduction of falsified receipts.

4. Automate Policy Enforcement

Be preventative instead of protective. Compliance rules can be built into expense management tools and are validated in real-time while a user enters new expenses.

5. Clearly Document the Approval Process

Make the process well defined for the expense owner and the approver for limits, allocations, approval delegation and other process standards.

6. End Penny-Wise-and-Pound-Foolish Audit Practices

Don't audit 100 percent of submitted expense reports—statistically sample using metrics such as risk categories. Change the behavior across the organization by openly conducting independent audits.

7. Help Employees Make Good Decisions

Use automation to assist with absolutely accurate data entry direct from credit card charges. Implement powerful business rules to capture unique approval situations.

8. Centralize the Travel Expense Process

By implementing an automated expense management platform, a consistent, programmatic approach replaces a substantial amount of human intervention—reduce costs and increase operational efficiency.

9. No Cutting Checks

Implement an automated ACH or EFT payment of all expenses—reduce duplicate payments, fraud and processing time and produce more timely payments.

10. Leverage Your Leverage

After implementing best practices, it's time to 'leverage your leverage' through the use of analytics and business intelligence reporting.

Chrome River



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