



A June 2015 report from the Aberdeen Group reported that companies with best-in-class Time & Expense software "require 43% less time to fill out an expense report" and automated expense reports speed up approval time by 265% (from 9.3 days to 3.5 days)<sup>1</sup>. This marked improvement demonstrates the value of automation.

However, those statistics also show that while the manual workload is reduced for end users and approvers, the workload is not necessarily reduced for the finance groups and auditors, who also have an essential role to play in the expense report process. There's not much talk of tools for those in accounts payable, managers, and auditors looking to uncover fraud and ensure compliance with company policy2.

This whitepaper is designed to serve as a resource for those trying to navigate complex expense reporting and auditing problems. You will learn more about best practices for how to establish an expense reporting process, specific information on how to deal with particular expense types, policy recommendations, and how the latest in audit innovations solves some of the problems inherent in expense reporting.

### Let's begin by considering what a common expense reporting process looks like:

### Step 1: Data entry.

This is where the expense report is technically born. Data & transactions are imported into the expense report system using OCR (Optical Character Recognition) on receipts or entered manually by employees with the option to attach receipts. Data can also come in through credit card/P-Card feeds and travel booking.

### Step 2: Validation.

The report undergoes automated validation based on pre-programmed rules defined by a policy engine. If the report fails, the user is given a message as to why it failed and the opportunity to fix the problem and resubmit. If the report passes, it moves forward to their approver, who (upon approval) sends it to reimbursement and processing to finally land in the accounts payable inbox.

### Step 3: Payments.

Reimbursements are disbursed and bills are paid. The reimbursement could be by ACH or by check to either the employee or the vendor (such as the credit card provider).

### Step 4: Reporting.

Reporting tools pull together data into charts, graphs, and tables to demonstrate trends and provide insights into spend and overall process efficiency.

### Step 5 (or between other steps): Auditing.

This stage can fall anywhere between steps 2-4, allowing auditors to step in for verification during any stage of the expense report process. Some companies leave it for the end, others employ auditing after each step.

The time spent on steps 1 and 2 is continually being decreased by automation. Automation has been slower to assist Auditing. This means that where auditing is conducted within the expense management process it can become a bottleneck..

### Let's review the steps of implementing a process to automate expense reporting and establishing travel policies:



<sup>&</sup>lt;sup>1</sup> Aberdeen Group. (2015, June 5). "Best-in-class T&E expense management: How they do It." Retrieved from http://www.aberdeen.com/ research/10255/10255-rr-travel-expense- procurement-cpo/content.aspx

<sup>&</sup>lt;sup>2</sup> Schaeffer, M. (2007). Travel and Entertainment Best Practices. Hoboken, NJ: John Wiley & Sons.

### Step 1: Setting up policies.

In this stage, your company may be just beginning and you have your first employees, leaving you with the notion that you need some kind of guidelines for how to control expenses that your employees will incur. In this stage, you'll consider the types of policies, the wording of those policies, and whether you want to implement travel or expense preapproval.

### Step 2: Setting up approval processes.

In this stage, you need to decide who will be charged with managing the expense reports that will come in from employees in addition to the kind of approval you think will work best for you.

### Step 3: Establishing reporting.

Here you'll need to configure the kinds of data that you want or need from all that data entry. Since all that data is being brought into the system, you might as well take advantage of the insights that they can provide.

### Step 4: Creating auditing procedures.

The question now becomes how to ensure that the process is working and that the data meets quality standards as well as policy requirements.

### Step 5: Performing quarterly reviews.

Once the system has been established, you need to maintain and follow up on that system to ensure that it's running smoothly and not causing more problems than it's actually fixing. Areas to review include the type of data collected for reporting, audit procedures, the amount of time it takes to approve an expense report, the type of corrections and rejections based on the configuration and requirements, and which policies are being triggered and which are not.

### Step 6: Annual policy maintenance & updates.

This final step actually sends you back to the beginning to draw upon data from quarterly reviews for making changes or revisions to existing policies.

As we move forward, you'll find some recommendations on each stage of the process. In the end, we'll consider how to make auditing expense reports more efficient and more in line with policy compliance. For now, let's go through the six steps for establishing an expense report process and consider best practices for each step.

# STEP 1 | SETTING UP POLICIES

In this stage, your process has probably not yet been established and this is where it can look the foggiest. A practical tip is to start by establishing what travel policies you would like for your employees to follow. This need to establish policies might arise because you're starting a new company or because management has noticed that there are recurring corrections that need to be made within submitted expense reports. Either way, in this section, you'll find a list of recommendations for specifics concerning the most common types of expenses and a method for implementing those policies.

### **MOST COMMON TYPES OF EXPENSES**

The following list represents expenses most often utilized and advice for how to manage that particular kind of expense.

### **AIRFARE**

Airfare is a very common expense type and it's one that can be challenging to manage because it can be expensive and difficult to track. Here are a few ways to save using policies:

- · Track unused or adjusted pre-paid airfare charges.
- · Require users to enter the air ticket number, which is issued upon travel.
- · Monitor the class of service being used.
- · Monitor baggage and other airfare related fees.
- · Monitor spousal travel on business trips.
- Make sure the corporate travel agency was used to book the flight and the pre-approval requests before the flight is actually booked.
- Advance purchase date (a 7-day advance purchase date is recommended).

Most of the airfare ticket data can be read from a back-end booking system, enhanced credit card data, or your company corporate travel agency. That data may include origin, destination, trip date, airline, class of service, ticket number, and passenger name. There is no need to configure a lot of fields to collect the above data, unless the data is not provided from the source to booking.

#### **CAR RENTAL**

Car rentals are another expense seen commonly no matter the industry. Here are a few recommended policies for car rentals:

- · Validate against fuel charges on car rentals and require explanation.
- · Car type/size rented and related allowances.
- · Pickup and drop-off location.
- · Check for any upgrades and insurance.
- · Make sure the preferred car rental is being used.

The data can also be automatically imported into the system, including: vendor, car size, pickup location and return location, pickup date and return date, and whether fuel was purchased as part of the car rental. If you have a contract pricing with one or more car rental vendors, they usually provide a data feed in which this data can be auto-loaded and auto-matched to the credit card charges so you can improve your reporting and improve your overall auditing process.

### LODGING

Hotels are a special case because the charges at the end of the stay tend to be on one bill. Those charges can include not only the nightly rate and taxes, but also expenses associated with food, parking, and even laundry among others. In this case, it's recommended that the receipt at the end of the stay be required to have itemization. Most credit card vendors offer level 3 data, including the hotel folio, which can auto-itemize charges on the expense report. Having the hotel folio data itemized by expense type will help auditors and approvers get a clear view of the expenses that are part of one charge on the credit card, but might need to be allocated to separate accounts.

### Lodging policies to validate specific expense types include:

- · Compare against GSA per diem lodging or maximum rates and allocate excess to the unallowable account.
- · Laundry charge restrictions if the employee stay is less than a certain number of days.
- · Internet charges.
- · Long distance phone calls.
- · Mini-bar charges per day.

### INTERNET

Set limits for daily internet charges to make managing costs here simpler. Primarily, it's advised that you collect provider information along with the following policy:

· Monthly caps by employee.

### **MILEAGE**

Mileage on personal cars is a common charge for short distance trips. To make sure you manage mileage reimbursement, we recommend the following:

- Set mileage/kilometer limits with different rates based on the number of miles driven.
- · Enable commute mileage calculation.

Commute mileage means that employees do not get mileage reimbursement for the miles that they regularly drive from their home to their regular work location. Instead, employees only receive reimbursement for their mileage from their regular work location to the secondary work location. Using Google Maps is an accurate way of ensuring that only the appropriate kind of miles and the exact number of miles are being used.

Another consideration is the rate at which mileage is reimbursed. The original GSA rate was not designed for longer trips, so a lower rate may apply if employees are traveling more than a certain number of miles per day. In addition, at some point it may be cheaper to rent a car rather than reimburse an employee for mileage. In general, it's also advised to set the mileage rate based on the number of miles driven per day, week, month, and/or year.

For companies with company cars, you can require employees to track their odometer readings and track trips with multiple destinations and then request that they provide personal mileage on company cars for tax purposes.

### **CELL PHONE**

Cell phones are a common type of expense, though not many employees within the same company often qualify for this kind of reimbursement. To manage cell phone expenses, it's advised that you configure monthly allowances by individual employee or group and that you track the carrier information. You can also manage usage of this expense type by restricting access to this expense type and assign it to designated users only.

### **MEALS**

Meals can be a major expense for any organization that sends employees out to travel. They can be difficult to track, especially when you consider that each employee might expense three separate meals per day. It's advised to break out meals by breakfast, lunch, and dinner and then to track the location of these meals (whether they're in town, out of town, or even in the office). Then, it's advised that you have separate fields to collect data about tips and alcohol. The following policies also make a good addition to employee handbooks:

- Establish meal caps by meal type and validate against GSA per diem rates or specific meals limits by country/city.
- Set caps on the tip as percentage of the total amount.

### **BUSINESS MEALS/ENTERTAINMENT**

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Business meals and entertainment expenses can differ from the meals expense type above because they relate to several people rather than to one individual. A best practice is to collect data about the charge location, purpose, type of entertainment, as well as participant names, company, and titles. In addition, some companies might need to track data related to the Sunshine Act, so they will need to require the NPI number for each doctor and the amount allocated to each one.

### These policies are also recommended:

- · Caps on the amount based on the number of attendees.
- · Alcohol and tip amount tracking.
- Track meal expense category duplications in which the attendee on is one business meal and creating an expense report with individual meals on the same day.

### PER DIEM MEALS

Per diems are meant to simplify the expense reporting process. For per diems, information about the location of travel is being collected and, depending whether the expense is associated with single day or multi-day travel, the rules can differ on how the daily allowance and deduction are calculated. It's also recommended that a provided meals deduction is taken for breakfast, lunch, and dinner portions in addition to the following policies and methods:

- · Validate to make sure lodging expense is claimed on the multiple day travel if meals are claimed.
- CONUS (Continental United States) and OCONUS (Outside the Continental United States) fixed deduction rates or deductions by percentage.
- Per diem allowance and deduction based on the first and last day of the trip, as well as if there were any actual meals charged on that day such as business meals.

### PRE-TRIP AUTHORIZATION

If you're more comfortable with a higher level of control, a recommended process for streamlining processes and ensuring policy compliance is pre-trip authorization. This might be authorization for a trip, a class, or a conference. This feature allows the company to require authorization of all (or most) expenses before the trip is taken. The employee or traveler submits an estimated expense report, which then goes through the usual approval workflow and business rules. The details required for this authorization can vary by organization and can even vary by employee type or department. Then, their manager provides approval or rejection of the estimated expense report. Once the trip has been taken, an expense report for actual expenses incurred is submitted and tied to the original estimated expense report.

If you do want your employees to submit a pre-travel or pre-expense report with estimates on their spending, you'll need to establish a policy and a process for pre-approval authorization, which comes with several advantages and disadvantages.

The advantage is that you have more control over budgeting and you can communicate about expenses before they are incurred. If an expense seems questionable, you can get more information rather than being surprised once it's too late and it's already been charged.

The disadvantage is that now employees have to complete what is essentially two expense reports, an estimate and an actual, that need to be tied together. This can slow down the process for making purchases and can be frustrating for employees. This also means that you might miss out on cheaper expenses, like flights, because of the delay. Plus, it doubles the work for you and your approvers who need to review two reports.

An essential advantage of pre-trip authorization is not only that the employee is more cognizant of their spending and policies are more closely followed, but also that the estimated and actual expense reports can be compared to see the differences. Information like this is invaluable for staying within budget and seeing which employees might need a closer look during the audit stage.

### **STEP 2** | ARRANGING APPROVAL PROCESSES

In this step, you'll need to figure out who will be processing all the expense reports. Deciding who will become an approver is more than figuring out who is in charge of whom. You'll also need to consider how many levels of approval you need and how to train those approvers.

A best practice is to have at least one level of approval, though two levels is better. For instance, you might have the direct manager become an approver, but then the expense report has to go to the actual accounts payable person to perform a check-up on the report.

Another option is to establish exceptions for particular kinds of expenses or for particular submitters. If a particular kind of policy is being broken, you can arrange for a special check of that policy.

You can also use auto-approval, though it's recommended to also perform random checks if you choose to use this automated function. With a random check, a human approver will randomly pluck a specific percentage or number of reports to double-check them.

### **STEP 3** | ESTABLISHING REPORTING

The next stage of the expense report process can be the most rewarding. Compiling, processing and auditing all that data can seem meaningless without the final analysis on what all of it means. Reports can provide you with the insight you need to make difficult decisions about policies and how to most effectively spend your money. Here are a few recommended reports to run after the audit:

Monthly, quarterly, yearly expense reimbursement tracking by user, by expense or GL account, by department, by project These minute details can be useful to organizations looking to drill down deeply into costs and expenses. The ability to define what matters to your particular organization without relying on canned reports is particularly valuable.

### Corporate credit card transaction reconciliation, and usage tracking

This kind of report is also particularly valuable because it allows auditors to see the status of credit card or P-Card transactions. This report can provide information on which employees have not reconciled their transactions and where those transactions are in the process, as well as the kind of transaction (such as whether the transaction was personal versus business). This report provides full visibility into how credit card transactions are being managed.

### Measure approval duration by approver (how long a report set in a manager's approval queue)

A major aspect of employee satisfaction is in how long it takes to get a reimbursement for out-of-pocket expenses. If an expense report sits in the approver's queue for a long time before being approved or denied, it could indicate one of several possibilities: perhaps the approver has too many other expense reports to manage and the approval flow needs to be readjusted to accommodate a change; expense report approval might not be a priority for the approver because of a high workload (which might also indicate the need for a workflow change); or the approver is not getting notifications of reports or needs additional clarification/training about how to access the reports or how to approve them.

### Track audit failures by audit reason

This is a particularly valuable tool. Analyzing which policies are most often failed can help in determining which policies need changes. A high rate of failure can indicate that the policy needs more attention. Perhaps the policy is poorly worded or not clear, resulting in confusion among employees. Another possibility is that the policy is unreasonable and cannot be followed. This is perhaps because the requirements are impossible to meet or requires informing the users of the specific requirements and training or re-training.

### **ADDITIONAL VALUABLE REPORTS**

| EXPENSE REPORTS                                       | MEALS  | TRAVEL  | OTHER  |
|---|--|---|--|
| Receipt aging   | Amounts by meal type   | Hotel vendor  | Tax recovery amounts   |
| Released and pending approval                         | Duplicate Meal   | Commute mileage by specific location                                  | For HCP (Heath Care<br>Provider) requirements:<br>Provide aggregate<br>spending report that<br>includes the NPI Number |
| Cash activity   | Duplicate Attendee Report<br>during a specific period of<br>time for business meals                | Calculated miles vs<br>actual miles                                   |  |
| Released and pending receipts                         | Restaurant tip and<br>alcohol usage  | Yearly report and<br>companywide<br>statistics on internet<br>charges |  |
| Advance<br>reconciliation YTD                         | Attendee business<br>meals that shows all the<br>attendees allocated by<br>amount per expense type | Location of travel for per diems                                      |  |
| YTD expense summary<br>cash vs credit card<br>by line | Business meals &<br>entertainment<br>monthly   | First and last day<br>deductions<br>for per diems                     |  |
| Credit card reconciliation not submitted              |  | Deductions for the meals provided for per diems                       |  |
| Expense detail inquiry misc. expenses                 |  |   |  |

# **STEP 4** | CREATING AUDITING PROCEDURES

The following are recommendations for managing your company's policies to establish a smoother process, find fraud, and improve compliance.

### **CONDITION-BASED AUDITS**

Your auditing software solution should allow you to perform audits based on conditions relevant to your organization. Canned reports are often not helpful because they are not customized to the needs of the company/industry. Instead, being able to run condition-based reports ensures that only the details relevant to your needs are retrieved.

For example, Company A might want to audit against reports of more than \$2,000, which for the company is a semihigh amount of money to be spent. Company B might regularly have employees who submit expense reports of more than \$5,000, making those reports exceptional and worthy of closer inspection.

In another example, Company C might request to run an audit of 10% of all reports to be inspected manually, which perhaps amounts to 10 reports out of 100 for manual inspection. However, 10% might come to an unreasonable number for Company D, which submits 10,000 expense reports per year, meaning that 1,000 reports need to be read and analyzed by an auditor.

Other reasons for condition-based audits might vary based on what the company actually allows employees to submit for reimbursement. Some companies provide a stipend for spousal travel. In another company, the need for such a report is unnecessary because the company does not reimburse for spousal travel. This example demonstrates that condition-based audits can be based on a large number of conditions, including amount, expense type, vendor, employee type, or type of approval (whether the approval went through one level of approval versus 2-3). Other conditions can also be accommodated within the software.

### **POLICY REVIEW & ADJUSTMENTS**

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Having the ability to run audits against particular conditions can empower organizations with the data they need to take action. However, sometimes organizations do not take all steps needed that would most effectively improve their processes (and thus save money). One of those steps is identifying which policies are most often failed and why. The audit utility can assist with providing information about fail rates, but the next action to take is to understand why that policy has the most fails. Sometimes, this is a matter of having too many policies. Other times, this is a matter of having policies that are poorly written in the employee manual. The result is that employees do not understand the policy or they do not understand the purpose behind the policy, which can be frustrating for both the employee and the manager/auditor.

Simply changing the phrasing of the policy can make a big difference in its fail rates. This can clarify what belongs in an expense report and what does not, which can help employees follow the rules more carefully. Often, employees are not trying to break the rules. They simply need to understand the rule more clearly.

In addition, creating the habit of reviewing and revising policies yearly can help eliminate some of the problems behind high audit fail rates. Sometimes policies become outdated or they may even become a hindrance to the employee's job. The best practice is to adjust policies as you go. We suggest that you make changes to policies when they show themselves to be unclear or unnecessary. Then, just ensure that policies are adjusted annually at minimum.

#### **AUDITING RECOMMENDATIONS**

In addition to the above procedures for speeding up the auditing process, here are some recommendations for what you should be auditing against. These are common audits that work well.

### AUDIT REPORTS EXCEEDING DEFINED AMOUNT

This amount might vary based on the usual amount your company spends. For some companies, \$1,000 might be a good number to audit because it's a large number whereas others might set that number to be \$10,000 or even higher.

### AUDIT USERS WITH THE HIGHEST NUMBER OF REJECTIONS

The audit module is a great source of data for recognizing the outliers in terms of rejection. Pulling the expense reports for those users who most often are rejected can give you essential insights about not only who is going against policy, but what those failed policies are, which is valuable information. Then, you can figure out why that policy is being violated. Perhaps the wording is confusing or unclear, giving you an opportunity to correct the language and make clarifications for your employees.

### **AUDIT POSSIBLE DUPLICATES**

Duplicates represent a 200% increase in costs, so finding them is essential. Any doubled amounts might be accidental or purposeful reimbursements, making this kind of audit a potential source of big savings.

### **AUDIT OF RANDOMLY SELECTED SET PERCENTAGE OF REPORTS**

Randomly selecting a particular percentage of reports is a good practice because it ensures that all is well within the system. This number might need to be high or low depending on the number of reports in your system.

### **AUDIT 100% OF EXPENSES WITHIN A SPECIFIC DEPARTMENT**

Perhaps a particular department is spending more than the others. This would be a good reason to perform an audit of all expenses within that department to discover trends in the types of spend and methods to decrease that spend.

### AUDIT A SET OF FIRST FEW REPORTS SUBMITTED BY A NEW EMPLOYEE

A new employee might not know all the rules, so they might accidentally go against policy. Taking a thorough second look at the first 3 or 5 expense reports from a new employee can save money in the long run if you can identify a pattern of errors and then help the employee to correct those errors.

### **AUDIT REPORTS OUTSIDE TRAVEL POLICY DEFINED BY THE COMPANY**

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No matter the reason for the failure, some companies have found success in auditing all failed reports. This can also assist with understanding trends regarding the kinds of failure. This can unearth possibilities for changes to make in the annual policy review. Of course, the goal is not to accommodate failed reports, but to look for opportunities to improve or clarify existing policies, or even to look for ways to revise or combine existing policies.

#### **AUDIT REPORTS WITHOUT RECEIPTS.**

One-off situations in which receipts are not submitted can certainly happen. Perhaps a receipt got lost or was never provided in the first place. However, this can represent a major pain point for many businesses. Running this report can be very helpful in determining whether a recurring problem exists because it can identify patterns. If a particular employee is consistently asking for reimbursement without a receipt, those reports probably require closer scrutiny.

### **STEP 5** | PERFORMING QUARTERLY REVIEWS

An established system requires maintenance and follow-up to ensure that the right processes are in place and that the system is functional. It's recommended to do quarterly reviews so that you gather and process the data as you go, rather than being overwhelmed at the end of the year.

### It's recommended to run a report for these kinds of data:

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- Policies most often failed: This seems obvious, but it can help you to understand which policies are perhaps too
  draconian to follow (like a \$10 per meal requirement that's essentially impossible to meet) or that aren't being
  well understood.
- Policies that have never failed: These policies can probably be eliminated, perhaps because their requirements
  will never be met because the numbers are too outrageous or are overestimated. This can also be an
  opportunity to look for redundancies.
- Frequency of failure: Understanding which policies have a median level of failure can be just as valuable as most or least number of failures. These are the policies that are probably working and should be maintained.
- Top 10 users with the highest failure rates: This is an opportunity to uncover who is making the most mistakes so that you can consider what to do about it. Perhaps more training is in order or perhaps better communication is needed for these users.

Quarterly reviews (or even 6-month reviews) can be helpful when it comes time for the next step in the process: the annual review.

# STEP 6 | ANNUAL POLICY MAINTENANCE & UPDATES

Annual reviews are compiled from quarterly or 6-month reviews, to look at what changes to make for the next cycle. In this stage, you improve upon existing policies, eliminate redundancies and revise policies that need clarification.

In most cases, it's better to have fewer policies to manage, so it's not recommended to add new policies unless absolutely necessary. Creating a new policy for one-time use or one-off events will only complicate the system for the future. Therefore, it's better to stick with clarifying old policies and getting rid of policies that do not work or do the same job as another existing policy.

### CONCLUSIONS

At the end of your streamlined expense reporting process, managers and auditors should be able to spend their time and resources considering the purpose behind the major expense budget eaters. For example, managers may find that the purpose of a particular kind of expense was a trip to a conference or tradeshow that was costly, but resulted in not enough leads to cover the overhead expenses for the show. A decision about whether to spend that money on that specific conference or trade show next year can save the company time and money.

Each step of the expense reporting process requires careful attention to ensure that the policy is pulling its weight. Policies need to be considered carefully, then input correctly into the system.

As an estimate, it should take around six months to smooth out a newly established automated expense reporting process. After those six months in the real world, it's essential to revise, combine, and refine those policies annually so that they keep working the way they should.

Working with customer support and your implementation team throughout the process is essential for establishing and maintaining a robust expense reporting and auditing process. Trust the expertise of the professionals who have been through this process time and again and you're sure to come out the other side with an improved expense reporting system that provides more control and increases visibility.

Learn more about what an automated expense report auditing solution from DATABASICS can do for you.



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