



WHITEPAPER

# HOW FEDERAL CONTRACTORS CAN NAVIGATE COMPLEX EXPENSE REPORTING AND AUDITING REQUIREMENTS

## BEST PRACTICES FOR IMPROVING REPORTING AND AUDITING CAPACITY

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## ABSTRACT

In today's distributed workforce, best-in-class expense management empowers companies to streamline reporting, maximize efficiency and improve outcomes from anywhere in the world. The average company currently spends more than \$500,000 and 3,000 hours correcting expense reports<sup>1</sup>, costing time and opportunity. Not only does the right software offer tangible benefits, like significantly faster approval times, but it reduces errors while creating better records that power other initiatives.

# WHAT WE'LL COVER IN THIS WHITEPAPER

This whitepaper should serve as a resource for federal contractors navigating complex expense reporting and auditing requirements. You will learn more about best practices for establishing 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.

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## COMMON EXPENSE REPORTING REQUIREMENTS

### Data Entry

Data and transactions are imported into the expense report system using Optical Character Recognition (OCR) 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 bookings. When determining data collection parameters, contractors should evaluate applicable government Cost Accounting Standards, which impact how contractors<sup>2</sup> measure, accumulate, allocate and assign costs.

### Validation

A report undergoes automated validation based on pre-programmed rules defined by a policy engine. If the report fails, the user is notified and provided 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.

### 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).

### Reporting

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

### Auditing

This stage can fall anywhere in the expense reporting process, allowing auditors to step in for verification during any stage. Some contractors leave it for the end, while others employ auditing after each step. Regardless of the methodology, federal contractors need to meet government Cost Accounting Standards with a readily available audit trail, including<sup>3</sup> "documents, papers, or records related to compliance with the requirements."

# SIX STEPS TO IMPLEMENTING AN AUTOMATED EXPENSE REPORTING PROCESS

## STEP 1 | ESTABLISHING POLICIES

The first step in the process involves developing guidelines for managing employee expenses. In this stage, you'll consider the types of policies, the wording of those policies and whether you want to implement travel or expense pre-approval.

Federal contractors can identify common expenses and develop appropriate policies to support the end goal. Contractors should be especially mindful of unallowable expenses<sup>4</sup> for federal contracts, which can be extensive and potentially disruptive to business continuity. Similarly, business travel data collection should follow protocols established by the most recent Contractor Travel Reimbursement Guidelines<sup>5</sup>, and meal and entertainment expenses have their own standards<sup>6</sup>.

## STEP 2 | SETTING UP AN APPROVAL PROCESS

Next, it is important to determine who will be processing expense reports. An effective expense reporting process requires appointing an expense report manager to oversee the approval process.

At the same time, decide how many levels of approval are required and develop best practices for training approvers. Auto-approval is also an option, but you will still want a person to randomly choose and double check reports to ensure no errors are occurring.

## STEP 3 | REPORTING

Reports provide critical insight for making policy decisions and ensuring effective spending. Compiling, processing and auditing expense data is meaningless without the final analysis that comes from reporting. Here are some recommended reports that many contractors find helpful:

- Monthly, quarterly, yearly expense reimbursement tracking by user, by expense or General Ledger account, by department and/or by project
- Corporate credit card transaction reconciliation and usage tracking
- Approval duration by approver
- Audit failures by audit reason

## STEP 4 | AUDITING PROCEDURES

Establishing auditing procedures to manage your company's policies will make your internal auditing process smoother, help find potential fraud and improve compliance. Audits should be performed based on conditions important and relevant to your organization – not based on canned reports. Condition-based audits can be based on a large number of conditions, including amount, expense type, vendor, employee type or type of approval.

Running audits against particular conditions can empower organizations with the data they need to take action to improve their processes and policies. Additionally, regularly reviewing and revising policies can help eliminate some of the problems behind high audit fail rates, as you can adjust policies as you discover they are unclear or outdated.

### AUDITING RECOMMENDATIONS

Common audits that work well for federal contractors include:

- Audit reports that exceed a set dollar amount
- Audit users who have the highest number of rejections to understand why and make changes to prevent it in the future
- Audit possible (accidental or purposeful) reimbursement duplicates to find potential savings
- Audit a randomly selected percentage of reports to ensure all is working well
- Audit all expenses in a specific department if they are spending more than others to determine why and how to decrease that spending
- Audit the first few reports submitted by a new employee to confirm they understand and are adhering to your policies
- Audit all failed reports to understand and correct trends in this direction
- Audit reports without receipts if this is a recurring problem for a particular employee

## STEP 5 | LEVERAGING AUTOMATION & TECHNOLOGY

To minimize personnel resources, you should leverage automation and technology, which will streamline the expense reporting process and improve outcomes.

Expense reporting errors cost time and money, and decision-makers need actionable insights at their fingertips. Advanced OCR allows employees to automatically import all details from a receipt, invoice or hotel folio, significantly improving how companies capture and manage data. The same technology that can capture the expense detail can also be taught to automate audits and check compliance, drastically reducing the amount of human interaction needed to process expense reports. With today's technology, expense reporting includes:

- Auto-creation of expense reports
- Review and audits using technology to lower dependence on real people
- Matching and reconciling of receipts and card transactions
- Automated reporting with greater details, including hotel folio breakouts and vendor spend

## STEP 6 | ANNUAL POLICY MAINTENANCE & UPDATES

Finally, annual reviews and policy updates allow you to improve your expense reporting and auditing process. This gives you the opportunity to improve upon existing policies, eliminate redundancies, and revise policies that need clarification. Keep in mind that it is easier to manage a smaller number of policies, so focus on revising and eliminating existing policies rather than creating new policies, especially if they are one-offs.

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## CONCLUSION

Streamlining the expense reporting process empowers contractors to operate with confidence, knowing that they are accurately and efficiently accounting for expenses and adhering to compliance standards.

At the same time, federal contractors can more effectively evaluate spending practices, optimizing operations to maximize return-on-investment.

It will take approximately six months to streamline a newly established automated expense reporting process for most organizations. After this period, it's essential to revise, combine and refine those policies annually to remain as effective as possible.

The entire process requires close collaboration and routine reconsideration. Trust the professional expertise of teams that routinely navigate this process to ensure that you emerge with an improved system that provides more control and greater visibility.

## REFERENCES

- <sup>1</sup> <https://www.gbta.org/blog/new-study-reveals-pain-points-in-expense-reporting/>
- <sup>2</sup> <https://www.leftbrainpro.com/resources/cost-accounting/>
- <sup>3</sup> <https://www.acquisition.gov/far/52.230-2>
- <sup>4</sup> <https://govcontractassoc.com/entertainment-versus-employee-morale-costs-proper-timekeeping-cas-cost-impact-proposals-financing-your-contracts-accounting-for-contract-labor-accounting-software-for-government-contractors-federal-su/>
- <sup>5</sup> <https://www.fdic.gov/formsdocuments/contractortravelguidelines.pdf>
- <sup>6</sup> <https://www.federalregister.gov/documents/2020/10/09/2020-21990/meals-and-entertainment-expenses-under-section-274>

To learn more about how **DATABASICS** provides an automated expense report auditing solution for federal contractors, visit: <https://www.data-basics.com/industries/federal-contractors/>



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