

Want to Control Expenses? A Corporate Card Program and Third-party Audit Are Key

by George Roscoe

If you had the ability to access the data from over 100,000 expense reports from more than 50 organizations, it would probably reveal some interesting and useful insights into the ways companies, approving managers and their employees handle the expense reporting process. That's exactly what we did at InterIpX and here's what we found:



More than **90%** of approving managers do not review supporting documentation



20 to 30% of audits result in an exception of varying severity



Receipt issues (invalid receipt, missing receipt, illegible receipt, etc.) comprise over **65%** of audit exceptions; and



Over **90%** of the identified audit exceptions are resolved and corrected by the user when notified

Clearly there is a problem.

The Issue

Today's expense management processes are almost exclusively paperless. In other words, employees with reimbursable expenses that require receipts as support are submitting those receipts digitally, whether emailed, faxed, scanned, photographed on a mobile device, or via some other format (XML, HTML, PDF, etc.) into their company's automated expense management system.

The purpose of the receipt is to provide proof of what was purchased, from whom, when and for how much. The underlying problem is that the retained receipt is the primary form of substantiation as the source of truth for the above information, and it is inherently weak. Why, you might ask? Because in today's world, anyone with a modicum of technical skill can either create or acquire a receipt irrespective of whether they had a legitimate business expense or not.

Solutions

So how can the company's accounts payable department ensure proper controls over expenses in today's high-tech world? One key is to provide a corporate charge card to anyone that incurs a regular volume of reimbursable expenses. Corporate cards offer many benefits such as reduced need for cash or for the employees to use their own credit cards, increased ROI through rebates and the information available from the card provider.

But there is also a very real control benefit that reduces the opportunity for expense and receipt fraud. In order for this process to be effective, the use of the card must be mandated in corporate policy for any expense over a dollar threshold or for a given expense type. Anyone who submits an expense report that violates that payment type policy requirement should be flagged for audit and instructed to follow procedure or risk disciplinary action.

The Reasoning

Here's why this is so effective: Today's expense management tools are all built to provide card charges to users to enter into their expense reports. However, the user cannot modify the amount or the information that comes from the card company. Effectively, everything that would be on the receipt is on the charge card record, so you have an un-modifiable source of truth for the needed information. If the user submits a fraudulent receipt, the charge card data may be able to identify such and thus keep the average card-holder honest.

In our experience, companies that mandate the use of a corporate card as described above can achieve over 90% utilization of the card for all non-mileage expenses. This translates into a serious control mechanism and greatly reduces the likelihood of receipt fraud.

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In practice, we find that it reduces the need for receipts; however nothing is perfect and this process may still afford a bad actor the opportunity to “cheat” on his or her expense report. For example, they can add a gift card to their bill prior to checking out of a restaurant. They can exceed policies governing alcohol or other procurement limitations. These types of issues cannot always be found in the extended card data, because it is dependent on what is provided by the merchant, the bank card provider, program and processing file format.

This is why we believe every organization needs an active, human-based audit process. Not only will it keep everyone honest, it is the best line of defense for ensuring that the right documentation is retained for internal compliance as well as the tax and VAT requirements that vary by country. For most mid to large companies, it makes sense to consider outsourcing the audit function to a third-party. In addition to the clear segregation of duties, a SOX requirement, it provides several other key benefits:

Key Benefits to Third-party Audit Services

- **Thoroughness** – Third-party auditors are trained and focused solely on auditing expense transactions. That is their job and the result is they are very good at it. In most companies, expense auditing is a part-time function and not the sole job of the auditor, so they are typically neither as efficient nor as accurate as a professional auditor.
- **Efficiency** – In addition to their proficiency in conducting audit due to that being their sole function, they are also supported by high-tech tools and systems to assist in identifying which expense reports to audit and where potential abuse may lie. These proprietary tools are not typically available to internal A/P staff. The result is that the third-party audit service can usually be less costly than when completed with an internal resource.
- **Timeliness** – No one wants to get an audit exception notice months after the fact. To be effective, audits should be completed within two weeks of submission. The third-party auditor can be held to service levels that dictate the timeframe for audit, so your users will not be irritated by an audit exception from weeks or month past.

- **Independence** – The third-party auditor is not part of your company. They do not know your employees and thus all users will be treated the same way. Your CFO will appreciate knowing that proper controls are in place, thus meeting the criteria for Sarbanes-Oxley compliance.
- **Management Information** – Third-party audit providers typically track audit exceptions and their resolution by reason and resolution. As a result, they can provide information about the most common user errors, which approvers have the highest percentage of audit exceptions and which users refuse to comply with an audit exception request. This can be very helpful in fine-tuning your policies, procedures and training.

Conclusion

If you really want to ensure control over employee expenses, a mandated corporate card program supported by the services of a strong third-party audit provider will give you a very solid start towards control and compliance. Properly implemented, these two programs will not only allow you and your CFO to sleep easier, they will pay for themselves in the rebates available and reduced expenses that such controls will provide.

George Roscoe is Director of Marketing for InterpLX Expense Management. He is responsible for worldwide go-to-market planning, channel partner development and product management. Mr. Roscoe has more than 16 years of marketing and product management experience working for and partnering with high-tech companies in telecommunications, storage, networking, security, and IT software industries.



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