

Audit: An Integral Component to a Comprehensive Travel and Expense Management Process

ABSTRACT

Managing and controlling indirect or employee driven spending is a growing area of concern for organizations of all sizes. For most businesses, travel and entertainment (T&E) costs represent one of the largest areas of controllable expenses, and one that is also fraught with opportunities for errors, fraud and non-compliance. With the emerging role of automation and technology, many businesses are beginning to attain tighter control and compliance through the automation of these processes and the auditing of employee expense reports. This white paper provides detailed information and insights into the issues that drive the need for audit, along with best-practices and benefits of an outsourced audit program.

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In a post Sarbanes-Oxley world, management of employee spend, particularly travel & entertainment (T&E) and the payment of vendors has become increasingly essential to compliance and cost control. Organizations are seeking more effective and cost efficient methods to control spend, and more and more are recognizing how automation and outsourcing can streamline all of the processes involved, including audit.

Traditionally, organizations looked to audit occasionally as a way to find out if anything was astray. Audits have been customarily manual, usually consumed massive amounts of time and were a cause of disruption in the office. More importantly, the audits of the past only exposed issues, such as fraud, long after they had occurred. Today, automation and technology, along with advanced workflow have freed businesses from this inefficient, inconvenient process.

By making audit a seamless step of the expense reporting process, businesses are discouraging fraud and leakage before it transpires and causes serious damage. On-demand employee spend management solutions offer significant opportunities to drive policy compliance and deter fraud or, at a minimum, more easily detect fraudulent activities if they occur. An organization's expense management solution should provide the most accurate, reliable, and complete data available in a timely manner giving financial managers actionable intelligence to support better informed decisions around policies and internal controls.

These technology solutions can provide a comprehensive view of expense and travel data across the enterprise — what expense management industry leaders are now calling “unified insights.” Unified insights not only help organizations reduce the risk of fraud, but support strategic planning and fuel healthy growth.

WHY AUDIT?

For most organizations, audit of employee expense reports is an absolute business necessity. Of course, it's no secret that one of the primary reasons for expense report audit is to uncover and prevent fraud, which costs organizations hundreds of millions of dollars every year. But, there are other motives including Sarbanes-Oxley compliance, complexities of internal audits, lack of reporting accuracy and visibility.

Approximately 5 percent of U.S. organizations' total revenue each year is lost to fraud – a significant portion which results from expense related incidents.

THE DANGERS OF FRAUD

Audit of expense reports is a sure method to identify and deter fraud. It's proven that employee-initiated spending, including T&E expenses, can create numerous opportunities for fraud, from minor infractions of a company's travel policy to major misappropriation of funds. With the cost of fraud increasing every year, organizations are finding it essential to gain control over leakage. Approximately 5 percent of U.S. organizations' total revenue each year is lost to fraud – a significant portion which results from expense related incidents.¹

36 percent of respondents to a recent Business Travel News (BTN) survey said they caught an employee with intentions of committing fraud through their expense reporting system in the past two years, which is higher than the 28 percent rate seen in the last two years of BTN's survey. The survey also found among companies with less than \$2 million in annual U.S. booked airline spending, about three out of every five respondents reported T&E expense fraud.²

The 2006 ACFE Report to the Nation on Occupational Fraud & Abuse states that 18 months is the median length of time it takes to detect fraudulent activity, and in more than 25 percent of cases, fraud is discovered by accident.¹ There are many ways fraud is committed, but the two primary schemes perpetrated are employees claiming reimbursement for fictitious expenses or inflating actual business expenses.³

An astronomical \$652 billion is lost annually by U.S. businesses to fraud. Median losses range from \$150-\$190 million, and in more than 40 percent of fraud cases, nothing is recovered. While there are many types of fraud schemes, recent reports indicate that at least 19.5 percent of a company's fraud is related to expense reimbursement.¹

Compounding the problem, a surprising number of business travelers (25 percent) admit to booking travel outside of company policy, and although not every unauthorized expense constitutes fraud, there can be a fine line between out-of-policy spending and fraud. In fact, 20 percent of companies say that it is common for travelers to file reports that include completely false expenses.⁴

SARBANES-OXLEY

While the financial losses are significant, they only represent part of the compliance picture. In the U.S., the Sarbanes-Oxley Act of 2002 (SOX) reformed corporate accounting by bringing intense scrutiny and rigorous requirements, meaning that public companies must be above reproach when it comes to their internal financial controls. Now, because of SOX, and similar regulations governing businesses in other countries, it is more important than ever for organizations to audit travel and entertainment expense report practices to meet government regulations.

Not only are third-party audits faster, more compliant and thorough, but they also reduce operating costs associated with auditing expense reports.

LACK OF VISIBILITY AND REPORTING ACCURACY

Without auditing employee spend, companies lack visibility and procedure for examining travel and expense policy compliance or the ability to identify areas for improvement. T&E Magazine reports that 25 percent of business travelers acknowledge that they have booked travel outside of corporate policy, while 20 percent of companies say it is common for travelers to file reports that include completely false expenses.⁴ In addition to ensuring the results generated from typical T&E reporting processes are accurate, auditing expense reports can provide additional visibility into spend data.

The gap between policy and behavior can be significant, especially when inadequate controls make enforcement difficult. Complex approval hierarchies and control processes can complicate the process. And even though auditing is necessary, it's often a tedious, low-return activity, and internally conducted audit processes are not always above reproach.

The challenge for the majority of organizations is to streamline the complete expense reporting and management system while ensuring a tight control environment and access to the most reliable or “indisputable” data. While reducing the risk of fraud is clearly about compliance and saving costs, fraud detection and reduction should also, ultimately, be about turning business processes — expense reporting and management — into an asset to support mission-critical plans and activities.

COMPLEXITIES OF INTERNAL AUDIT

Internal audits can be a sufficient method for solving the need to review employee expense reports; however, there are some concerns associated with internal auditing. To begin with, internal audit employees feel pressure when reviewing co-worker's expense reports. This can be especially uncomfortable when an abnormality is found and presented to a colleague, not to mention, the pressure felt when auditing expenses of an executive or superior. This makes it nearly impossible to avoid subjectivity while conducting an internal audit.

Also, employees handling internal audits don't have a way to prioritize which failed audits to pursue or measure the results of the audit group. BTN's survey of expense managers found that a lack of automation is preventing respondents from reaching true auditing best practice status.² Current audit failure process is cumbersome and lacks tools for facilitation, therefore takes more time and effort.

MEETING THE CHALLENGE

When it comes to expense report audit, the single most important factor for any business to exert tighter controls, drive compliance, and reduce the risk of fraud is visibility. The most effective way to achieve the highest level of visibility is to document, standardize, and communicate policies, automate processes, and aggregate data for review and analysis. A comprehensive view of all expense and travel data will give organizations the information they need to identify problems, refine policies, drive compliance, and support better decision-making and strategic planning.

THE VALUE OF THIRD-PARTY AUDITS

It is a commonly accepted business practice for every organization to conduct regular random audits of a sampling of expense reports.⁵ Nevertheless, an audit conducted in-house can never be considered completely objective as the opportunity for collusion is always present.

Only a third-party audit can ensure the highest level of objectivity. Businesses should seek a provider who offers a variety of options for receipt submission, including fax or scan submission, and who takes control of physical receipts to validate authenticity and conduct both random and targeted audits (based on dollar thresholds, receipt type, C-level employees, lists of likely offenders, etc.) in keeping with an organization's parameters and needs. A provider with a powerful audit selection engine will conduct the complete review and send companies only questionable claims for action. An on-demand solution allows finance and accounting staff to focus attention only on suspicious claims, which increases efficiency and productivity and provides the most reliable and objective data and analysis.

A third-party audit can assure control and compliance over the expense reporting process, while reducing the current risk levels posed by non-compliance with internal policies and external tax/government regulations including Sarbanes-Oxley. External audits can also provide insight into optimizing your company's travel policies and provide feedback to help users comply with those policies, making the organization more efficient and competitive.

According to an Aberdeen Group study, 73 percent of best-in-class companies audit expense reports in conjunction with their expense management process (55 percent for an average company), while utilization of the auditing feature in an expense management and reporting solution is 38 percent more likely to occur in best-in-class enterprises than in the industry average and those below.⁶

For companies with an international presence, third-party audits provide compliance with country-specific regulations on T&E expenses. For instance, standard audit in Australia checks that requirements for legal invoices in Australia are met. In Europe, audit ensures valid VAT receipts are provided by employees to maximize VAT recovery.

Fraud and expense costs are reduced by proactively catching them before employees are paid. An incorrect classification of an expense can cost the company money. A common example often caught during the audit process is proper allocation of employee meals. Generally, 50 percent of the cost of a meal is deductible if it's categorized as a "business meal", while 100 percent of the meal's cost is deductible if categorized as an "individual meal".

When organizations outsource their audit services, it allows employees to focus on more strategic tasks within the organization. Outsourcing takes care of the actual audit itself, as well as the burden of customer support, end user questions and resolution of issues. Employee satisfaction is increased through quicker reimbursement from rapid audit of expense reports.

Not only are third-party audits faster, more compliant and thorough, but they also reduce operating costs associated with auditing expense reports. "If a corporation wants to audit a certain percentage of reports, and the expense management systems can do it at a lower price than the corporation can do it, that's a reason to use them," said David Hillman, principal of Consulting Strategies of Illinois.²

AUDIT BEST PRACTICES

With travel & entertainment widely considered as one of the leading controllable indirect expenses for an organization, there is no doubt why companies across all industries and sizes are looking for direction on audit policy surrounding this area. Establishing and maintaining standard business practices and internal controls can be a fairly complex process, and what works for one organization might not always work for another due to unique situations and circumstances.

WHEN TO AUDIT

First of all, determine the right timing for audit based on your company's objectives. Most companies choose to audit expense reports before expense reimbursement. The goal here is to shape the behavior of the traveler and catch exceptions up front. Reports with exceptions are sent back to the traveler for action, with the required changes and adjustments clearly communicated. Rather than trying to obtain information, such as missing receipts, after reimbursement, make certain to obtain missing documentation before payment. In fact, it is a best-practice for companies to have audit occur before manager approval of an expense report to improve the workflow process. However, some organizations choose to conduct an audit after expense reimbursement. For these organizations, the objective is to perform a post-payment audit of their process for compliance validation and analysis purposes, providing an additional layer of scrutiny without impacting the process itself.

HOW FREQUENTLY?

What percent of expense reports do organizations generally audit? While this percentage varies, companies with limited quantities of expense reports may start by auditing 100 percent of their expense reports. Companies with 1,000 expense reports per month or more normally start with a random sampling of 25-35 percent of expense reports each month. A large number of exceptions should be expected in the first month. It is best to take six months to learn and then increase or decrease the audit percentage based on what is discovered.

As a best-practice, pre-payment audits are intended to proactively check compliance with company policies and travel guidelines, as well as to ensure that VAT and other receipts are collected before expense reports are paid. When it comes to auditing prior to reimbursement, small companies may begin auditing 100 percent of their expense reports, while midsize companies tend to audit a 20-50 percent random sample. As for most large multi-national organizations, they generally audit a 10-20 percent random sample of their expense reports.

Once companies see an improvement in compliance they will reduce audit frequency gradually over time to a sustainable healthy level. Depending on the company's culture, the sustainable level could be between 10-35 percent. However, organizations with complex business policies, compliance concerns, fraud or high VAT recovery potential may conduct 100 percent pre-payment audit on an ongoing basis. Most companies also audit all expense reports above a certain dollar amount, those with international travel and from targeted employees.

As mentioned, most organizations conduct pre-payment audits rather than post-payment. Generally, ROI for pre-payment audit is greater than with post-payment audit. With pre-payment audits, no adjustments against future expense reports need to be tracked and discrepancies can be resolved quickly. Of the organizations conducting post-payment audits, usually between 10-20 percent of approved expense reports are audited.

RANDOM SAMPLING

Once an organization's audit process is established, it will be necessary to continue auditing a statistically significant random sampling of expense reports each month working toward a target of 10-35 percent. Again, this percentage can vary with the size of the organization and other factors. Companies with a robust or automated expense management system that feature business rules to catch policy exceptions tend to audit less, while smaller organizations or those without established processes might audit more.

Whatever the organization's size or expense report volume, it is important to be able to perform a 100 percent audit of targeted groups. Examples of groups that would be audited 100 percent include all reports submitted by senior executives, reports over a certain dollar threshold and targeted individuals – so-called 'cowboys' – who have a history of pushing the boundaries of compliance with corporate policies. In addition to the aforementioned random audits, companies would be well served to conduct 100 percent audit on all of these groups to ensure compliance with Sarbanes-Oxley.

CORPORATE POLICY

An audit of an organization's expense reports should be largely based upon its regulations and corporate policy, but there are other criteria to be considered. Companies should check the validity of receipts submitted with expense reports by comparing the date, amount spent, type of expense, method of payment and vendor. Another area to identify is the taxable items to the employee per IRS 1099 guidelines. Additionally, receipts should be analyzed to verify if a purchase is supposed to be classified as an asset supported by IRS regulation. And, be certain that all out-of-pocket cash expenses have supporting documentation.

LINK CORPORATE CARD AND EXPENSE REPORTING

Another audit best practice is to unite corporate card and expense data as an improved way to monitor spend. When corporate card data is linked to expense reporting, top spenders can be identified, those delinquent on bills or writing checks with insufficient funds can be targeted. The traveler can be questioned and this gives them the opportunity to reconcile transactions.² With corporate card data automatically linked to the expense reporting application, it also provides a way to get more business travelers to use their corporate cards, thereby driving more spend through preferred channels, increasing the opportunity for rebates and presenting more visibility into spending.

By making audit a seamless step of the expense reporting process, businesses are discouraging fraud and leakage before it transpires and causes serious damage.

ELECTRONIC IMAGING

For the majority of organizations, the two most costly components of conducting business are time and space. Managing large quantities of paper receipts is a challenge for many businesses, leading thousands of organizations around the world to replace their bulky paper-based filing systems with electronic copies. Automated expense management processes significantly reduce paper by making the expense report itself paperless, and by also converting paper receipts into electronic images. This enables organizations to save money by eliminating many of the costs and complications associated with maintaining a paper-based filing system. Electronic imaging of receipts also provides improved security and is a good reason to archive for regulatory compliance.

THE BUSINESS OUTLOOK

As organizations become increasingly multi-national, multi-divisional and complex, the need for increased visibility intensifies. A complete, fully automated, on-demand expense management solution is essential to optimize internal controls, achieve unified insights, and re-focus resources, time, and attention on more strategic tasks.

As our complex global business environment brings new opportunities for leakage and fraud, powerful technologies and solutions are available to reduce risk and improve compliance. These configurable solutions can be structured to accommodate global needs and to aggregate data from disparate sources. While benefiting from the impressive and measurable improvements in efficiency and productivity in recent years, businesses are now focused on healthy growth. Superior audit tools and processes have freed companies from the heavy burden of manual activities and have given them the data to help achieve unified insights — the comprehensive view of expense and travel data needed to better manage business.

CONCUR AUDIT

Concur is the world's leading provider of on-demand Employee Spend Management services. Over 7,000 companies worldwide trust Concur to help them globally control costs by automating the processes they use to manage employee spending. Part of Concur's comprehensive suite of on-demand services, Concur® Audit provides organizations with a third-party service to streamline the management of the expense report audit process. Concur Audit is designed to satisfy the unique needs of organizations, providing dedicated auditing resources that substantiate and verify employees' expense receipts and provide the appropriate level of control to ensure compliance – all while cutting processing costs.

When it comes to expense report audit, the single most important factor for any business to exert tighter controls, drive compliance, and reduce the risk of fraud is visibility.

ABOUT CONCUR

Concur is the world's leading provider of on-demand Employee Spend Management services. Concur enables organizations to globally control costs by automating the processes they use to manage employee spending. Concur's end-to-end solutions seamlessly unite online travel booking with automated expense reporting, streamline meeting management and optimize the process of managing vendor payments, employee check requests and direct reimbursements. Organizations of all sizes trust Concur to help them control spend before it occurs while eliminating paper and optimizing supplier relations. Concur's unified approach to managing employee spend delivers a 360 degree view into all employee expenses, helping companies globally enforce policies and monitor vendor compliance, while delivering unprecedented control and valuable insight. Concur's suite of on-demand services reach millions of employees across thousands of organizations around the world – streamlining business processes, reducing operating costs, improving internal controls and providing enhanced visibility and actionable expense analysis. More information about Concur is available at www.concur.com.

(1) Association of Certified Fraud Examiners 2006 Report to the Nation - Occupational Fraud & Abuse

(2) "BTN's 4th Annual Expense Manager Survey: Fraud Fears, SOX Prod Companies To Increase Expense Report Auditing" by Michael B. Baker
http://www.btnonline.com/businesstravelnews/search/article_display.jsp?vnu_content_id=1003660766

(3) "Expense Reimbursement Fraud: Ten Ways to Protect Your Organization" by James Marasco, CPA, CFE, CIA, StoneBridge Business Partners <http://www.stonebridgebp.com/about-news-expense-fraud.htm>

(4) "Tracking: How Corporations are Cracking Down on Expense-Report Abuse," T&E magazine, February 2006

(5) Automation Enables Expense Report Auditing Variety, Business Travelers News, Feb. 6, 2006

(6) T&E Expense Management, Aberdeen Report, April 2008

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