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TRAVEL AND ENTERTAINMENT EXPENSE POLICY AND REIMBURSEMENT PROCESS: NOT WHAT IT WAS A FEW SHORT YEARS AGO

INTRODUCTION

Travel and entertainment (T&E) expenses are the second largest controllable expense for most organizations. Hence, the process should get a lot of attention. Yet, until very recently (think Sarbanes-Oxley) it was one of the last bastions of unfettered bad employee behavior with even very respectable companies allowing practices that you would have thought ended decades ago.

The T&E reimbursement process is a cost function, not adding anything to the bottom line. It is one of those petty annoying functions that brings little praise or glory when things run smoothly but can force the spotlight on a group when things go wrong—especially if the story ends up in the newspapers, as has happened several times in recent years.

Thus, organizations everywhere are starting to change their poor T&E practices. There are a number of reasons for this. Before we start our investigation into the nitty-gritty of the T&E expense function, let's take a look at some of the trends that are causing change in this necessary, but sometimes irksome, corporate function.

TRENDS AFFECTING T&E EXPENSE REPORTING

Twenty years ago, cash advances and paper expense reports were the norm. There was no other way to travel. This made the travel and entertainment reimbursement process cumbersome and subject to human error. Calculation errors were frequent and compiling data for any sort of analysis was almost impossible. The specter of clerks surrounded by mountains of paper as they review reports and check math has all but disappeared. Here are some of the reasons:

- T&E cards
- No more cash advances
- Internet
- Sarbanes-Oxley Act
- Automation
- Cost control
- Policy compliance
- Visibility factor
- Fraud

- Changing cultures
- Exhaustion of corporate tolerance

T&E Cards

A large number of companies give their traveling employees credit cards to use for company business. These cards can be used for meals, hotels, transportation, and a variety of other items, whether the employee is away from home or in town. The cards remove the onus of the employee using his or her own credit cards, although many companies still do not provide these cards.

No More Cash Advances

The aforementioned T&E cards along with a growing number of places that take the cards have made cash advances far less necessary than in the past. According to a recent survey by *Accounts Payable Now & Tomorrow*, less than half the companies responding offer their employees cash advances. Even in those that do, the dollar amounts are often restricted and the circumstances under which they are given further limit the use of cash advances. Companies have found another reason to eliminate advances. Employees who have forked out their own funds are much more likely to complete their T&E expense reports on a timely basis than are those who have to return funds to the company.

Internet

Without a doubt, the Internet has affected the way employees book travel. Not only has it made it simpler to have employees book their own flights, it has given them the tool needed to shop for less expensive options as well as check on plans made by

their travel agents. This can be both a blessing and a curse. While it helps keep travel agents honest, it also has led to employees who search for travel savings to the detriment of overall travel programs. The Internet has also introduced automation into a function that was largely paper based. Unfortunately, it helps deceitful employees intent on defrauding their employers of a few bucks. This issue will be discussed in detail in Chapter 11.

Sarbanes-Oxley Act

The last five to ten years have not been kind to the corporate world. The shameful behavior of a few has cast a spotlight onto practices of the entire business population, forcing, in some cases, much needed change. One of those areas has been T&E. In fact, in the same *Accounts Payable Now & Tomorrow* study mentioned earlier, 57% of those responding indicated they had changed their T&E policies because of the passage of the Sarbanes-Oxley Act. Particularly interesting about this statistic is that only 30% of those responding to the survey were public companies. Sarbanes-Oxley has served as a wakeup call to organizations everywhere that they need to clean up their act when it comes to T&E—and apparently many heeded the call. In fact, when asked about the frequency of policy updates, a number of respondents said things like, “this is the first time we’ve ever done one,” “working on it now,” and “currently updating.”

Automation

Very few companies still rely on a paper form for T&E reporting. At a minimum, most use an Excel-based form. In fact, in the *Accounts Payable Now & Tomorrow* survey, almost half of those responding indicated they used an Excel-based form. Only 15% still use that paper form. This means that the time

spent checking the calculations is eliminated from the review process—assuming of course that the formulas for the calculations are locked. Otherwise, unscrupulous employees can adjust their returns. It means that organizations either can have fewer employees reviewing T&E reports and processing them or they can have the same number but these employees can spend their time looking for policy compliance or analysing the data. In either event, the staff working on T&E can use their time for more productive tasks.

Cost Control

As companies look for ways to cut costs, it is no surprise that T&E has come under scrutiny. Larger companies have long negotiated favorable rates with preferred carriers, and this continues both for air travel and lodging. Use of per diems is another way that companies reign in spending when it comes to meals. The amounts used for per diems are usually based on government published rates and can lead to a lot of complaints from the employees who are subject to them. But, if cost control is a serious issue, per diems are the way to go.

Policy Compliance

Policy compliance is now a huge issue, both for those looking to keep costs under control, as discussed above, and those looking to ensure tight internal controls. The aforementioned automation has made policy compliance easier to monitor in certain instances. Some of the third-party T&E services have built-in policy compliance checking routines. Many of these simply will not allow employees to enter reimbursement requests outside the policy limits. Companies looking to avoid spectacles when some of their executives' freewheeling expenses are made public

are cracking down on those who don't comply with the written policy.

Visibility Factor

Automation, the Internet, and some of the recent corporate debacles have made T&E expenditures more visible. Companies are now able to run reports that show who spent how much on what. They highlight policy non-compliance. These reports, while always part of third-party products, are now more commonplace. Companies now have access to information they need to monitor what's going on as well as to use in negotiating contracts with preferred suppliers.

Fraud

Before you dismiss T&E fraud, let me point out several factors. First, fraud is most frequently committed by long-term, trusted employees. Second, according to the Association of Certified Fraud Examiners' *2004 Report to the Nation*, 22.1% of all fraudulent disbursements were expense reimbursements. The average cost for these cases was \$92,000. The cost is so high because T&E fraud generally does not happen once, but is an ongoing event with the crooks getting bolder over time.

Changing Cultures

How all the issues related to T&E are addressed and handled will depend partially on the corporate culture. While a few issues in T&E are black and white, many have some leeway. For example, whether to offer cash advances, whether to have the company or the employee responsible for the credit card bill, and what expenses to cover (e.g., liquor) are just a few of the issues that need written policies so employees know what they can and

cannot do. What may seem like a given in one situation will not fly in the next. Benevolent organizations are changing their stripes due to mergers, acquisitions, or harsh business conditions. These and other circumstances will radically change the way an organization treats T&E expenditures of its employees on corporate business. It is imperative that employees are informed of any changes.

Exhaustion of Corporate Tolerance

Given the unsympathetic public reaction to some of the corporate extravagances as well as ruthless cost pressures and the piercing spotlight on internal controls, organizations everywhere are saying, "Enough!" and are ending bad practices. While it is not the business of an organization to monitor employee behavior when it comes to things like hiding income from spouses, most organizations will no longer adjust their reimbursement practices to accommodate these requests from employees.

OTHER ISSUES AFFECTING THE T&E EXPENSE PROCESS

Unfortunately, there is much about the T&E process that is not uniform from one organization to the next. This is true today as much as it was 20 years ago. The main factors influencing this include:

- Human factor
- Personal issues
- Corporate culture

Human Factor

The allure of a quick buck is attractive to a few employees who try and steal from the company via their T&E reports. Since the

dollar amounts are usually small, it is often difficult to determine whether the employee simply made an honest mistake or if there was an intent to steal. Thus, fraud detection routines are part of the T&E discussion going forward and are a significant part of this book.

Personal Issues

Employees often use their T&E reimbursements to hide income from their spouses. While it should be beyond the purveyance of the corporate world to make judgments on its employees' behavior, companies are well within their rights to refuse to undertake policies that enable questionable behavior if it means that their operations run less efficiently.

In the past, when reimbursement was done by check hand delivered to the employee, this was an issue between the employee and his or her partner. This is no longer the case. As companies put in more efficient processes, this issue has become a sore point in those organizations that have long tolerated this really poor practice.

Corporate Culture

T&E is one area that has felt the impact of corporate culture on its policies and procedures. Its effects can be seen in how the company addresses some of the following T&E-related issues:

- Cash advances
- How expenses are reimbursed
- Levels of per diems
- Who can fly first class
- Whether a company has a corporate T&E card for its traveling employees or expects them to use their own
- What's reimbursable

- Policy on liquor
- How rogue travelers are treated
- How T&E cheating is treated

OTHER BAD PRACTICES THAT PLAGUE T&E

Possibly more than any other facet of the corporate accounting world, T&E is beleaguered with poor practices. Following is a list of practices that should be avoided. Most will be discussed in detail, along with ways to avoid or eliminate the problem, further along in the book. The bad practices are:

- Not having a written T&E policy
- Not reviewing and updating the T&E policy at least annually
- Not sharing the policy with all affected parties
- Not requiring timely submission of T&E reports
- Tolerating managers who approve reports without reviewing them
- Not requiring receipts for expenses in excess of a policy limit
- Uneven enforcement of the T&E policy
- Reimbursing employees by hand delivering a check
- Not doing spot fraud checks

OUTSIDER'S VIEW

On the face of it, the T&E reimbursement process seems simple enough. An employee travels on company business. She accumulates some expenses and when she returns she fills out an expense reimbursement report, which her manager reviews and approves. It is then usually sent to Accounts Payable so the employee can be reimbursed for her expenses. While it does

occasionally work this way, a large percentage of the time it does not.

WORST-CASE SCENARIO

Here's a worst-case scenario that demonstrates what goes wrong. Now, before you start reading, let me say for the record that rarely does everything that is delineated in this example occur on one expense report.

An employee, let's say a salesperson (as they are reputed to be among the worst when it comes to T&E), goes on a business trip to visit clients. While on the trip he takes the clients to dinner and then out for an evening of fun. The fun may be a baseball game or very occasionally a visit to a strip club. Yes, a few rogue salespersons have been known to take clients to such places and then act surprised when the company refuses to reimburse them for the bill. Inevitably, at every Accounts Payable conference I attend—and I go to anywhere from 5 to 12 a year—there is some poor Accounts Payable manager with a story of how he or she had a knock-down drag-out with a salesperson over reimbursement for some questionable entertainment.

Anyway, when the salesperson returns home and eventually compiles his reimbursement request, he does one of two things with the bill from the strip club. He either boldly enters it on the report and requests reimbursement or tries to hide it in a number of creative ways that will be delved into in Chapter 11. Additionally, in our worst-case scenario, he may request reimbursement based on receipts either that he manufactured himself or that came from another event. Sometimes, against company policy, the employee may bring along a family member.

Now, you may be thinking that the boss will refuse to approve the reimbursement, but that is where the next problem occurs.

Most superiors do not review T&E reimbursement requests put in front of them by their employees. They sign whatever the request is. This leads to extremely uneven enforcement of company policy and is unfair. But, it is a reality that most companies are faced with.

So now, our rogue salesperson has a T&E reimbursement request that includes charges at a strip club and this request has been approved when it hits Accounts Payable. Accounts Payable, if it checks reports against the company T&E policy, then has a fight on its hands if it tries to refuse the reimbursement. If it takes the stance that since it is approved it will pay the reimbursement, the company pays for something that it shouldn't.

While this is an extreme case, there are many other less blatant, but equally inappropriate, charges that regularly show up on employees' expense reports. Also, in this example, the employee is basically honest, if not exercising the best judgment. There are those who regularly cheat on their reimbursement requests.

BEST-CASE SCENARIO

The employee goes on a business trip. Within a few days of returning the employee fills out the requisite forms, attaches receipts to document those expenses as required by company policy, and submits the form to his or her boss for approval. This may be done on paper or electronically, if the firm uses an electronic model for T&E.

Within a few days, the manager reviews and approves the report and sends it to Accounts Payable for reimbursement. This reimbursement will take place as mandated by the company policy. This can be as frequently as daily or as infrequently as monthly. Most companies reimburse once a week or once every two weeks. A few organizations do it as part of payroll.

REALITY

The employee takes a trip. One of two scenarios happens, the impact being the same in Accounts Payable or whatever unit is responsible for handling T&E reimbursements. Either the employee fills out the report and gives it to his supervisor relatively quickly after the end of the trip and the manager never gets around to reviewing and approving it, or the employee waits until the credit card bill is due and then the fun begins.

The employee needs the reimbursement funds to pay the credit card bill, so he pesters Accounts Payable for reimbursement. To be reasonable, if the boss has been delinquent in approving the expense report, it is not fair to her employees to make them pay the bills out of their own pocket. However, if the employee just never got around to submitting the expense report, it is an entirely different matter.

Unfortunately, the effect on Accounts Payable is the same. The employee needs a Rush check, and that is a poor policy from a control standpoint and an extremely inefficient use of the Accounts Payable associate's time. If the company had used one of the online electronic T&E models, a lot of these problems would be avoided, especially if it contained one of the escalation features related to the approval process.

And depending on the organization, a good percentage of reports are submitted within a reasonable timeframe, avoiding the problems discussed earlier, although the reports themselves may contain errors.

WHO HANDLES T&E?

Do you ever wonder how your organization stacks up against others? Do you sometimes think that your company is the only one lagging behind when it comes to adopting best practices?

Or do you suspect your Accounts Payable department is ahead of the eight ball? When it comes to T&E, it is often difficult to find data against which to measure your department. Recently, *Accounts Payable Now & Tomorrow* conducted an exhaustive survey to find relevant T&E information. Here we delve into the basics: where T&E is handled.

The handling of T&E is an Accounts Payable function at most companies. When asked where the responsibility for T&E reimbursements lay within their firm, participants responded as follows:

Accounts payable alone	75.7%
Separate T&E department	6.8%
Payroll	2.7%
Accounts payable shared with another group	9.4%
Other	5.4%

At over 85% of those firms surveyed, Accounts Payable had either full or partial responsibility for this function. Thus, throughout this book, when discussing the group responsible for the T&E review and reimbursement function we will refer to Accounts Payable. Know that if there is a separate group that handles it in your organization we are referring to that group.

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