

WHITE PAPER

# 2020 Expense Policy Best Practices



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# Audit employee spend properly – or go fast?

You no longer need to choose.



Many organizations face this dilemma. They recognize the benefit of reimbursing employees quickly – employees trust the organization and feel valued above anything else – but worry about what slips through the gaps when expense processes go too fast.

Let's start by looking at why the spend management process is slow in the first place.

1

## PROCESSES ARE MANUAL

Processing employee expenses for many organizations is still a manual process. In recent years the introduction of systems such as Concur has made considerable strides to improve expense submissions and payment from the employee perspective - but no such improvements have been for the expense review process.

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## EXCEPTIONS ARE HARD TO SPOT

Some policy exceptions are easy to find – if an employee expenses a \$500 meal when the daily stipend is \$100, we have an obvious exception. But if an employee expenses lunch for themselves and a colleague for \$100, then the colleague does the reverse for dinner, this is much harder to spot. This is just one of the myriad of ways in which an employee can abuse policies.

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## EXCEPTIONS ARE OFTEN LOW VALUE

The cost of out of policy expense claims can often be small – a few extra dollars on a mileage claim, for example – and the cost of identifying and rectifying the issue is more than the return to the organization. But expense fraud – and yes, this is fraud – is a growing concern. The Corporate Finance Institute estimates that fraud costs 5% of global revenue, with expense fraud accounting for 15% of all fraud detected. That same research highlighted that employees tend to spread expense reimbursement manipulation out over long periods, with the median duration of expense claim fraud being 24 months and a median loss of \$31,000.

## But what if your organization could solve the problems?

Imagine a scenario where expense claims are inspected automatically, with even the smallest exceptions identified, and without prohibitive cost. This is expense policy excellence.

### 5 Steps Towards Expense Policy Excellence



Today, AI technology is the key to expense policy excellence. The complexity of identifying exceptions and the growing capabilities of technology such as artificial intelligence (AI) mean that manual oversight of expense claims cannot make sense in the modern world.

#### Our five-step process shows:

- How AI technology solutions can automate policy enforcement and the processing of 85%+ of expense claims without the need for human intervention except for expenses that are designated as the highest risk
- How expense-specific AI models, virtually impossible to create manually, can bring context into the identification of expense exceptions
- How the agility offered by technology can position spend management teams for success in the future.

Join us as we walk you through Five Steps Towards Expense Policy Excellence.

## STEP 1

# Do the basics – exceptionally well

Getting the basics right is the foundation for any part of business, but especially within expense management. These basics include ensuring that auditors can:

- Validate different expense types directly from a receipt
- Match receipt values to values on the claim
- Compare individual claim lines, and cumulative claim lines, against multiple policy provisions
- Reduce processing time to reimburse employees faster

However, a modern spend management environment should deliver these basics via automated software systems - not manual auditing.

For excellence, fortify foundational expense processing in complementary areas.

### Project based thresholds

In project or grant-driven organizations, there may be unique thresholds and policies for specific projects. For example, some overseas clients may reimburse business class airfare, but only economy is acceptable in other situations. Create rules to enforce spending within specific general ledger (GL) codes representing client projects, funding grants, company events, and more.

### Anti-bribery compliance

There are several anti-bribery and corruption regulations worldwide, including the Foreign Corrupt Practices Act (FCPA) in the US and the Anti-bribery and Corruption Act in the UK. These regulations prohibit bribery (gifts, meals, entertainment, cash compensation, employment opportunities) connected with international business. Violations carry civil and criminal penalties, so organizations should review attendee names against anti-bribery and corruption regulations to ensure compliance.

By delivering exceptional expense audit automation, you can reduce processing errors, pay valid expenses faster, and comply with anti-bribery regulations.

### Recommendations

- Deploy expense management software to automate the processing of expense claims.
- Aim for touchless processing of the majority of claims within 90% of cases.



## STEP 2

# Understand custom documents

Every organization has unique expense policies procedures that include specific documentation or information – being able to understand and use these is essential to achieving expense excellence.

### Pre-approval expenses

Many organizations require pre-approval for specific expenses, such as taking clients out to a sporting event. As part of the policy, employees need to submit documentation, such as a signed business justification document, along with their expense. Although these are unique to each company and in a non-standard format, an AI-enabled solution can read, understand, and audit pre-approval documents to ensure policy compliance as part of the standard expense approval process.

### Approved brand lists

Some organizations have rules against reimbursing products from competitors. These are very difficult to enforce in manual processes as it is impossible to comb through every line item of every receipt. Creating a custom list of variations or exceptions to detect when employees cross these boundaries allows AI-powered solutions to flag any brands outside of corporate product lines. For example, at Coca-Cola, an AI can flag “Pepsi” or any Pepsi brands when they appear on an expense report.

Pre-defining common exceptions and frequently required validation information provides AI-enabled tools with the data they need to significantly reduce the time taken to process expense claims.

### Recommendations

- Ensure organization-specific requirements are covered by your expense management software.
- Apply policies automatically against all expense claims using AI and rate their effectiveness in managing spend.



# Expense or purchase?

Some organizations require that software purchases go through the procurement department. This isn't just a cost-savings exercise — software subscriptions create a legal obligation for subscribers that some legal and compliance teams want to monitor.

But this creates a burden for finance: accurately identifying a potential software purchase is challenging (which companies sell software and which SKUs are software vs. training vs. support are tricky questions to answer). AI models can lift this burden by allowing organizations with unique classification needs, like this example, to automate this work, delivering significant time savings and avoiding allocation errors.



# Reasonable expenses

Human auditors are often required to ask questions like:

- Why is this minibar bill \$200?
- Why did this employee spend \$300 at McDonalds?
- How come this high-end restaurant bill is only for \$20?

Now AI models can exhibit human-like traits to identify whether the price of a steak dinner at a restaurant is reasonable, based on the number of attendees, website menus and rating systems, and of course company policies.



### STEP 3

# Add context to improve decision making

Humans excel at looking beyond just data and applying context to any given situation. Human operators know that an expense claim for office parking during the COVID-19 pandemic is spurious if all employees are working from home.

Despite being able to process huge volumes of claims, technology has not been able to deliver this level of context-enabled understanding – until now. AI models that are trained specifically to operate on spend management data are now available that apply the concept of “what is reasonable.”

By combining AI and context, certain expense exceptions become much easier to identify, making the implementation of context-enabled automation a core step to expense excellence.

There will always be exceptions that still need human review and disposition, but context-driven AI-understanding brings AI-enabled expense policy automation ever closer to human capabilities, drastically speeding up the processing of the of reports.

## Recommendations

- Utilize expense-specific AI models to determine the level of risk on individual expense lines.
- Automate the approval of expenses that are within acceptable risk and cost thresholds.



## STEP 4

# Recognize that everyone is unique

When processing expense reports, organizations need to remember that the overall objective is to reimburse employees who have spent their own money to help the business as quickly as possible. The majority of employees do not try to submit spurious expenses but simply want a simple, efficient process.

However, some do abuse the system, and these individuals should be treated accordingly. But these are individuals – and it is vital to treat them differently to other employees. Otherwise, everyone suffers because of a small minority. Techniques such as managing lifetime limits and enabling specific employee benefits and perks through expenses allow organizations to treat each person individually.

### Lifetime employee perks

Some organizations allocate employees a specific amount they're allowed to submit for reimbursement over time, such as a lifetime allowance for productivity tools (headphones, office chairs, etc.). Create custom rules to keep track of each employee's expenses to ensure they don't exceed the allowance over time.

### Missing Receipt Affidavits

When an employee loses a receipt, or it's not available, some companies require a Missing Receipt Affidavit (MRA) form with the expense report. Keep track of aggregated MRAs over time for each employee to avoid abuse.

Employees are individuals and need to be treated as such. If one employee abuses the expense system, do not penalize others by default.

### Recommendations

- Create policies that have multiple layers of validation.
- Apply policies discretely against individuals, but perform constant analysis against multiple groupings such as individual, team, department, office, etc.



## STEP 5

# Adapt to the times with dynamic policies

The COVID-19 pandemic in 2020 has highlighted the increasing need for organizations to be adaptive and flexible. The almost overnight shift from office working to working from home for many employees caused a radical change in working practices and expense management. Having a dynamic and flexible approach to spend management policy setting and application is critical as the world continues to adapt to climate change, social change, political instability, and more.

### Remote work expenses

Many companies shifted to remote work due to COVID, while others have begun going to the office in shifts or smaller groups. Configure expense processing software to use dynamic conditions (who is working remotely on any given day) to apply different work-from-home policies automatically. Identify location-based exceptions, such as remote work expenses on a work from home day for further review.

### Policy change communications

Making changes to expense policies is only part of the equation – communicating those changes quickly and clearly is equally essential. And there are positive signs for those that do this well. AppZen research has shown that employees are 50% more likely to understand updated expense policies if they are well communicated. They are also three times more likely to feel fairly compensated if the expense policy is clear and updated.

### Recommendations

- Ensure expense management systems can be updated with policy changes quickly, easily, and by all relevant staff.
- Communicate changes in policy automatically via multiple sources including email, intranet, and newsletter.



"AppZen survey of 1,000 expensing employees at companies 250 or larger in the US and UK, August 2020"

# The benefits of expense excellence

Achieving excellence in any field is never easy. But organizations that commit to achieving excellence will create a positive spend management culture and deliver significant benefits along the way.

## EMPLOYEE TRUST AND ENGAGEMENT



Expense management in an organization provides employees with a barometer for their value within the enterprise. If an organization focuses on delivering a simple to use expense process with rapid reimbursement and clearly defined policies, that provides employees with a strong sense of trust and engagement with their employers. Conversely, if employees feel that they have to fight to reclaim expenses, then they will likely not want to spend their own money in the future, and mutual respect is lost.

## ADAPTABILITY



The organizations that take the five steps described in this whitepaper to achieve employee expense excellence will equip themselves with the tools and mindset to manage the COVID-19 pandemic today. Companies should not underestimate the value of strategic planning and tactical execution - during a crisis. Those who emerge with flexible and modern solutions put themselves in a strong position to continue to adapt to whatever changes they encounter in the future.

## REINFORCED CORPORATE CULTURE



An unlikely side effect of strong and clear spend management is a reinforcement of corporate culture. Several examples exist of organizations with a strong link between transparent, ethical, empathetic expense policies and a mirrored corporate culture. Equally, those organizations with lax expense policies often have equally relaxed corporate cultures. Spend management and corporate culture seem intrinsically linked, so driving for expense policy excellence makes clear strategic sense for the broader enterprise.

# The road to expense excellence is AI-driven

No one enjoys submitting expense reports. The fact that an individual has had to pay for something out of their own pocket and then has to complete an often arduous process to reclaim that money never sits well. So any improvement in this process will be met with open arms by employees.

But as an employer, the task of controlling spend management effectively has always been a challenging, manual process that did little other than cost money. As with so many different aspects of modern-day life, technology – and AI technology in particular – is changing that.

- The almost infinite power offered to enterprises by cloud-computing means that:
- Organizations can process thousands of expense claims in seconds.
- Validation of 100 percent of individual expenses is possible against every potential data source.
- The cost of identifying expense exceptions, for the first time, is less than the return.

The opportunity also exists for the day to day activities and fulfilment of the finance team to be radically altered. The drudgery of poring over line after line of expense claims can be replaced by AI-models that automatically approve valid and low risk claims. In exchange the finance team will spend their time working on unique exceptions, utilizing their specific skills to unravel intricate scenarios too complex for technology to manage. The pivot to 100% highly skilled work will offer a greater mental stimulus at work and ultimately greater job satisfaction.

Until recently, finance teams striving for expense policy excellence would have likely failed - time and resource constraints stopping many initiatives in their tracks. But remote working has led to a drop in the volume of expense claims, making this a perfect time to deliver this project.

Expense management excellence can, and should, be seen as a strategic initiative to create an AI-enabled foundation to drive long-term employee trust, loyalty, and engagement. Welcome to a time where artificial intelligence automation is liberating expense management forever. Welcome to the age of expense policy excellence.



## About AppZen

AppZen delivers the leading AI-driven platform for modern finance teams. The AppZen Platform is built on 7 years of learning from thousands of online sources, thousands of customers and billions of financial documents and transactions like invoices, contracts, expense and accounting data. Starting with business spend, we automate manual process, uncover problems and optimize decision making at scale for finance organizations around the globe, including one-third of the Fortune 500. The AppZen Platform combines patented computer vision, semantic analysis, and deep learning to understand financial transactions in business context and make decisions before those transactions happen. It is a must-have for CFOs and their teams to comply with policy and regulations, streamline process, and reduce spend.

Over 1,650 enterprises have standardized on AppZen, including four of the top five banks, four of the top ten media companies, four of the top ten pharmaceutical manufacturers, two of the top five aerospace companies, and six of the top ten software providers. Visit us at [www.appzen.com](http://www.appzen.com) and follow us on Twitter @AppZen

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