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4 Ways to prevent expense report fraud

The possibility of internal fraud is a real concern for many executives, regardless of organizational size. Popular news articles point to high-profile cases of corporate card abuse, asset misappropriation and various examples of employee fraud that would alarm any organization.

But there are more subtle forms of fraud, like exaggerated business expense reporting. It can have a significant impact on an organization's bottom line if left unchecked. In fact, employee fraud is one of the most costly liabilities an organization can have. And, according to a recent survey by webexpenses, employee expense fraud is on the rise — and employees are actually having quite an easy time committing it.

Let's look at how employees commit expense fraud

There are many ways employees can commit expense report fraud. And it's easier than you might think. According to the Association of Certified Fraud Examiners (ACFE), attempts to commit expense report fraud are regarded as fraud schemes. These schemes fall into one of the following four categories:

Mischaracterized expense schemes: requesting reimbursement for an expense that isn't business-related

- Submitting all or parts of personal travel as a business trip (e.g., hotel stays that include family members)
- Claiming dinner with a friend as a business development expense

Overstated expense schemes: inflating the cost of actual expenses

- Exaggerating out-of-pocket expenses that don't require a receipt
- Rounding up mileage claims

The average loss from an expense report reimbursement scheme is $152,000, according to the 2022 Report to the Nations by the Association of Certified Fraud Examiners.[1]

Fictitious expense schemes: submitting a claim for an expense that was not incurred
- Falsifying expense reports and attaching either fake receipts generated from the web or doctored receipts
- Submitting an expense for a purchased item that was later refunded

Multiple reimbursement schemes: submitting a single expense for reimbursement multiple times
- Submitting a claim for a product or service in January and then again in March
- Having multiple receipts/proof of payment for a single expense and submitting them at different times

The key to getting away with expense report fraud lies in its subtleness. More often than not, the expenses are relatively small. The claims fall through the cracks and raise no red flags.

But these small expenses can quickly add up, leading to a significant impact to your organization's bottom line. According to the 2022 Report to the Nations, the Association of Certified Fraud Examiners reports that the average loss from expense reimbursement schemes is $152,000 and generally last for 18 months before before being noticed.[1]

How to minimize expense report fraud

Travel and entertainment (T&E) is a considerable operational cost — upwards of 10 percent of an organization's budget. With such a large percentage of the budget devoted to T&E, expense management is more significant than ever. These steps can help rein in T&E expenses and keep them under control.

1. **Implement a corporate card program**
   Implementing a corporate card program and mandating its use is the first step in controlling T&E expenses. Corporate cards provide visibility into expenses, help control expenses and make reconciliation easier. Mandating that your employees pay with commercial cards whenever possible will give you more control over spending. Commercial card programs allow you to set spending parameters based on an individual's job duties and budgets.

2. **Create an expense management policy**
   To safeguard against misuse, implement a corporate card program along with a well defined expense management policy. The expense management policy should be simple and clearly articulate allowable expenses. Communicate your policy broadly and train your employees on it often. When your employees understand the budgets, limitations and the reasons they are in place, they are more likely to make responsible decisions.

3. **Institute a review and approval process for all expense reports**
   Everyone's expense reports should be reviewed and approved before processing. Instituting a review process helps ensure that expenses are business-related, and that your employees comply with your expense reporting policies and procedures. Employees who know that their expense reports will be reviewed are more apt to be careful with their spend.

4. **Invest in technologies to help automate expense reporting**
   Automation can provide insight into your organization's T&E spend, streamline manual processes, reduce errors and improve expense policy adherence. Policy rules can be built into an expense management tool, helping to uncover spending patterns and identify possible expense account fraud.

Investing in an expense management solution like TravelBank can help employees keep track of business-related expenses and automatically file an expense report, thus minimizing the risk of fraud and improving expense policy adherence.

Here's the bottom line: if you have employees, you have the potential for expense report fraud. More than likely, if your organization isn't leveraging the available tools and technology to prevent and monitor fraud, it will adversely impact your organization's financial wellbeing. Companies that have sound oversight and controls, coupled with expense management automation can more readily identify red flags, understand spending patterns and recognize fraudulent behaviors.

There's probably no way to eliminate expense report fraud completely, but with the right tools, processes and procedures, organizations can manage it effectively.

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