The Key to Smarter Travel & Entertainment Expense Auditing
Businesses worldwide spend $1.25 trillion on travel each year, studies show. In fact, travel and entertainment (T&E) expenses account for more than 10 percent of the average company’s overall budget, and are the second-largest corporate expense behind payroll, JPMorgan Chase reports.

With T&E expenses representing such a large part of the corporate budget, it is no surprise that companies are thinking more strategically about their expense management processes. Forty-one percent of companies see expense management as a critical function, while 39 percent of companies report the function is rising in prominence, per Aberdeen Group. Expense management has joined the ranks of strategic sourcing, operations, sales and finance in driving corporate performance.

Despite the financial and strategic importance of expense management, many businesses rely on ineffective approaches to auditing T&E expenses (think: random sampling of reports) that contribute to weak T&E policy compliance, high T&E spend, and slow reimbursement to business travelers.

Organizations must take a new approach to auditing T&E expenses to achieve their strategic goals.

This white paper details the ways that traditional approaches to auditing expense reports negatively impacts business performance, how automated real-time auditing of all expense reports addresses these challenges, and the benefits organizations can achieve by auditing all their expense reports.

**Traditional Audit Approaches**

Less than two-thirds of organizations regularly conduct audits of expense reports, Aberdeen Group finds. Worse, the audit strategy of most businesses is to conduct random sampling or threshold-based expense review, typically after an employee has been reimbursed. A further audit might be conducted of business travelers known to have breached the policy previously. As a result, less than 15 percent of all expense reports are audited, studies show. And the detection rates of non-compliant spend is very low as the effectiveness of random sampling and threshold-based expense review is dependent on an auditor’s research skills. In fact, most audit time is spent verifying receipt amounts; it is not uncommon for organizations to use temporary staff to help verify peak volumes of receipts.

Moreover, many organizations do not follow-up on non-compliant spend. Only 60 percent of firms require travelers to justify out-of-policy bookings, leaving 26 percent who do not or are unlikely to do so, per the CWT Travel Management Institute. This is confirmed by travelers: 16 percent say that no real action is taken, while 34 percent do not know the consequences of out-of-policy bookings.
As an example, 70 percent of organizations do not request a list of attendees at meals, PayStream Advisors finds. This makes it hard to validate that all attendees were there for business purposes.

Audits conducted by an outsourced audit firm are no panacea, as they still take a lot of time, and are prone to human error. And while T&E expense management solutions do a great job of automating the process of creating expense reports, they fall short when it comes to detecting fraud and misuse.

Complicating matters, time-pressed managers – who are supposed to check the validity of expenses – often approve expense reports based on a cursory review, trusting that employees will do the right thing. Finally, the process for documenting expense approvals in a traditional expense management environment can become clouded as T&E reports are passed up the chain of command for approval.

The Problem
Finance and accounts payable teams are under pressure to increase compliance with T&E policies, reduce T&E spend and reduce employee T&E reimbursement cycles – all without adding staff. But traditional approaches to auditing expense reports makes it nearly impossible to achieve these goals:

- **Weak compliance**: Without strong enforcement of corporate travel policies, business travelers can wreak financial havoc while on the road. It is for this reason that businesses establish T&E policies that spell out authorized expenses and amounts, employee roles, cost centers, and hierarchy in the expense approval process. It is not just internal T&E policies that organizations must be mindful of when auditing expenses. National and international regulations require organizations to adhere to strict standards of accountability that require stringent reporting and compliance measures. In the United States, all publicly listed companies must abide by the Sarbanes-Oxley Act, the Anti-Money Laundering Law, and Anti-Bribery laws like the Foreign Corrupt Practices Act (FCPA). The Internal Revenue Service (IRS) also has strong laws governing travel expenses. In Europe, European Union and national regulations impose even tighter restrictions in some areas, as well as complex Value-Added Tax (VAT) reclaiming processes. Non-compliance can result in millions of dollars in fines and penalties (a single violation can cost millions of dollars). Auditing T&E expense reports plays an obvious role in meeting these obligations. But relying solely on human auditors to ensure policy and regulatory compliance is risky. To manage the hundreds of T&E expense reports that “cross their desks” each week, many auditors review only those reports that exceed arbitrary thresholds; many compliance and fraud issues go unnoticed. The result is that businesses lose millions of dollars each year to non-compliant expenses.

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Businesses can no longer afford to ignore the serious legal, regulatory and financial troubles that T&E expense reports can create if neglected or abused.

- **High T&E spend:** If T&E expense management feels like an unwieldy area of corporate spend, you are not alone. Forrester Research finds that T&E expenses are the second-most difficult operating expense category to control. And when you consider that U.S. companies are projected to spend more than $293 billion on T&E in 2017 (per the Global Business Travel Association), there is a lot of spending to keep in check. But traditional approaches to auditing expense reports makes it difficult for organizations to control T&E spend. Twenty percent of all T&E spend is considered out-of-policy for the average company, Aberdeen Group estimates. In fact, travel expenses account for half of all employee spend violations. Common abuses include hotel, car and airline upgrades, minibar purchases, extending a business trip into the weekend on the company’s dime, and holiday expenses. Studies show that 17.4 percent of all expenses claimed during a weekend or holiday are not business related. All the areas can be controlled with better auditing of T&E expense reports.

- **Slow T&E reimbursement:** The auditing of expense reports at most organizations is a manual process. Auditors must verify expenses against T&E policies to ensure that expense claims are legitimate before approving the report for payment. With the large and growing amount of expense reports, receipts, and other information that needs to be reviewed, auditors generally limit their verifications to matching receipts to expenses claimed. Nonetheless, manually sifting through expense reports and receipts to catch and correct errors takes a lot of time. In fact, it is so time-consuming to do even this basic audit that organizations typically resort to random sampling of T&E expense reports for audit or setting thresholds for expense amounts to identify which T&E expense reports should be audited. These manual processes delay reimbursement, which impacts employee morale. Reimbursement is further delayed when travelers misplace receipts or forget to include receipts with their expense report.

Eliminating these problems requires a new approach to auditing T&E expense reports.

**The Solution**

Artificial intelligence – which uses computer technology to automate repetitive tasks and deliver better outcomes over time – uniquely addresses the weak policy compliance, high T&E spending, and slow reimbursement that results from traditional approaches to auditing expense reports.

The technology works in conjunction with any automated expense management solution, including Concur and Oracle, to audit all expense reports in real-time, prior to employee reimbursement.
Once expense reports are submitted in the expense management system, they are digitally sent to the artificial intelligence engine for risk-based auditing. Every item purchased on every receipt is verified for T&E policy compliance and potential fraud. Artificial intelligence also analyzes travel booking and credit card transactions, including Level-3 data. The technology understands the full context of expenses using computer vision, deep learning and natural language processing. A semantic analysis of images of receipts, boarding passes, travel documents and cell phone bills detects non-compliant charges by identifying words such as “minibar,” “laundry,” “fuel service,” “seat upgrade,” and “Golden Mojito.” The technology translates receipts from one language to another (e.g. translating Japanese language receipts into English for English-speaking auditors), ensuring consistent auditing, regardless of where an employee travels. The artificial intelligence technology also validates attendees, merchants, locations, descriptions, amounts, travel bookings, and credit card transactions by cross-checking the expense report data in real-time against thousands of external and social data sources, such as Google, TripAdvisor, Yelp, Wikipedia, and Zomato. Expense reports with a low risk of non-compliant spend (typically between 90 percent and 95 percent of all expense reports) are sent back to the expense management solution for payment. Auditors only review reports flagged with non-compliant expenses (typically between 5 percent and 10 percent of all expense reports). The technology also tracks behaviors such as repeat offenders, accidental claims and intentional claims.

Organizations can easily configure audit settings based on business requirements. For instance, users can set default audit thresholds or define thresholds by category (such as entertainment, meal and gift) and/or by country. Expense reports with potential problems are assigned a level of risk and presented for review. Integrated case management tools enable auditors to collaborate with travelers to resolve issues. Auditors can append comments, a PDF of the expense report and any risk findings. The employee’s manager also can be copied. Audit trails track all case management activities.

Built-in audit and spend analytics enable organizations to analyze spend
across merchants and expense categories. Analytics also allow users to instantly access real-time insights into potential risks based on receipt verification, the age of expense reports, any spending that exceeds statistical thresholds, weekend expenses, and possible anti-corruption and bribery compliance violations.

The Benefits
By automating expense report auditing, fraud detection and compliance, T&E professionals have the tools to ensure that business travel is compliant with company policy, is the most affordable option, and is automated to simplify processes and improve accuracy on spend and business requirements.

- **Increased compliance:** Best-in-class organizations have a 91 percent rate of compliance to corporate travel policies and guidelines, Aberdeen Group reports. Artificial intelligence enables organizations to establish a complete and consistent expense auditing process. Auditing all T&E expenses in real-time empowers organizations to eliminate T&E expense management pain points such as in/out of policy spend, Internal Revenue Service (IRS) compliance, Foreign Corrupt Practices Act (FCPA) compliance, and expense report approvals and traceability. Cross-checking T&E expenses against external and social data sources provides organizations with real-time information about the “true” business of merchants, reference pricing, and background information for external attendees claimed on expense reports. For instance, the technology detects spend in clubs, adult entertainment establishments, casinos and other categories and merchants that violate an organization’s policies, regardless of whether the merchant has tried to disguise their business with a generic or misleading MCC code. Artificial intelligence technology also helps organizations detect:
  - Disallowed spend
  - Suspicious merchants
  - Non-preferred merchant spend
  - Airline upgrades
  - Travel violations
  - Hotel minibar and movies
  - False attendees
  - Fraud
  - Personal expenses
  - Accidental claims
  - Wasteful spending
  - Duplicate items
  - Graft and bribery
  - Potential FCPA violations
  - Inaccurate/excessive mileage
  - Abnormal expenses

48% of best-in-class organizations surveyed by Aberdeen Group take measures to improve and enforce corporate T&E expense policies.

24% of best-in-class organizations leverage analytics to improve intelligence and data, Aberdeen Group finds.
Auditing all expense reports in real-time is helping organizations achieve 10 times greater detection of financial risks compared to their previous audit tools and processes. Automated real-time audits also free auditors to focus on problems instead of verifying receipts.

- **Reduced T&E spend:** Auditing all T&E expense reports in real-time enables organizations to capture significant savings, and achieve a better ability to identify fraud and non-compliant spending and report on taxable and non-taxable expenses. Artificial intelligence automates the human research and analysis on which many organizations rely for expense auditing. This means that organizations can audit all their expense reports at a fraction of the cost of manual or outsourced auditing. Automatically auditing all expense reports in real-time is helping businesses reduce their T&E spend between 2 percent and 5 percent (representing millions of dollars in lower expense spending), while decreasing their expense processing costs by 80 percent. It is for these reasons that 24 percent of best-in-class organizations automate key components of T&E expense management, Aberdeen Group reports.

- **Faster T&E reimbursement:** Twenty-eight percent of best-in-class organizations arm executives and business travelers with better technologies to make expense management much simpler and faster, Aberdeen Group finds. Artificial intelligence makes real-time automated auditing of all T&E expenses a reality. Non-compliant expenses are identified within minutes of submission. Integrated case management technology speeds the time required to resolve problems. And integration with expense management platforms and back-end accounting systems ensures that information on approved expenses flows quickly and seamlessly.

**Case Study**

First Solar, a leading global provider of comprehensive photovoltaic solar energy solutions, is an example of an organization that is benefiting from automated real-time auditing of expense reports.

Prior to deploying an artificial intelligence engine, First Solar used a team in Malaysia to manually audit all its expense reports. While the audits seemed effective in identifying non-compliant spend and fraud, the process was costly and hard to complete within the organization’s targeted three-day turnaround. First Solar also wanted a way to track audits and the resolution of problem reports.

After evaluating available solutions, First Solar determined that an artificial intelligence engine that provided automated real-time auditing of expense reports would best meet its business needs.
The technology provided First Solar with immediate benefits. Within one month of deploying the technology, First Solar achieved a 50 percent reduction in resources required to audit expense reports. First Solar’s audit staff no longer needs to review expense reports flagged with “low-risk” problems.

Automated real-time auditing of expand reports also accelerated the identification and resolution of T&E expense reports with problems, resulting in significantly faster employee reimbursement.

What’s more, the artificial intelligence engine enables First Solar to review expense reports for problems such as FCPA violations, merchant prices outside of normal limits, and hotel spending limits for a city. First Solar could not check for these problems in its manual auditing environment.

And an integrated case management tool enables First Solar to use a single dashboard to manage and track the resolution of audits. Auditors previously had to switch between the organization’s expense management solution, e-mail and spreadsheets and cut-and-paste information for audit resolution.

**Conclusion**

Organizations spend too much on T&E to continue to rely on traditional approaches to auditing expense reports. Manual reviews, random-sampling and threshold-based reviews contribute to weak T&E policy compliance, high T&E spend, and slow T&E reimbursement. Artificial intelligence engines work in conjunction with any expense management solution to automate the auditing of all expense reports in real-time. The technology is helping organizations increase policy compliance rates, reduce T&E spending, and speed reimbursement. Importantly, the insights provided by artificial intelligence strengthen expense management’s position as a strategic corporate function.
About the Sponsor

AppZen uses Artificial Intelligence to automate T&E expense report audit and instantly detect fraud and compliance issues. AppZen’s patented ReceiptIQ™ technology uses Computer Vision, Machine Learning, and Natural Language Processing algorithms to instantly analyze receipts, credit card transactions, travel bookings, and other data and notify your audit team in real-time of any compliance issues, errors, and fraud.

AppZen seamlessly integrates with all major expense reporting systems, such as Concur, Oracle, and NetSuite to enable your business to audit 100% of your expense reports in real-time. Customers are finding that compared to their existing tools and processes, AppZen catches 10-times more errors and fraud – while reducing their T&E audit processing costs up to 80%.

Learn more at www.appzen.com