

GRC Case Study: How a Fortune 500 Company Enforced Expense Policy and Really Changed Employee Behavior

by John Hagerty

When nearly 4,000 employees are using a company-paid travel and entertainment (T&E) credit card, there are bound to be some interesting expenses submitted. The disgruntled ex-employee who bought a car and a manager who purchased **Apple** iPods as an incentive for his team without informing payroll/HR come to mind. These needed to be reported to the U.S. Internal Revenue Service (IRS) as a taxable item for each recipient, of course.

Before you get the impression that this is a case study of T&E management run amok, it's not. Instead, it's a lesson about how one company changed employee behavior by reinforcing expense policy through a combination of management encouragement and continuous monitoring technology. This initiative's goals were to institute proactive internal controls, eliminate entitlement, and reinforce accountability and fiscal responsibility. All were achieved, and the company saved money too.

The business problem

The U.S. shared services organization for a Fortune 500 restaurant services company administered a longstanding homegrown T&E system. Charges incurred on the corporate **American Express** card were automatically paid, with receipts submitted after the fact. For example, expenses incurred between March 25 and April 25 were paid to the travel card company on April 30. Cardholders then matched receipts to expenses and submitted expense reports to the shared service center.

The company stated its T&E policy: No personal use of the corporate card. But some workers didn't always adhere to this. And if they did charge personal expenses to the card, there was a 30-day to 60-day lag between expense payment and employee reimbursement.

As part of a review of internal controls, the global compliance group identified significant gaps in the T&E

policy. It had been years since the policy was updated, interpretation varied based on who you asked, and global compliance's opinion was, "If it wasn't written down, it couldn't effectively be enforced."

The shared service officer had to act quickly to reduce identified financial risk. Working with global compliance, the corporate and U.S. controllers, IT, travel services, and internal audit, the company charted a course to improve four T&E controls:

- Improve and document policy, as well as train employees on what it means for themselves and the company
- Execute more real-time integrity checks on T&E expenses
- Report noncompliance and exposure issues on a timely basis to employees and managers\
- Reduce and deter misappropriate use of corporate funds

The first step was clear: explicitly define expense policy and make sure employees understood it. Up front, the company made the decision that policy violations would be flagged and reported to the employee's manager, and the manager would counsel the worker on acceptable uses for the travel card. But violations had to be flagged more quickly than in one or two months after the fact. Otherwise, workers wouldn't internalize the impact of spending outside policy.

Monitoring expenses in near real time

The company originally explored working with American Express to block charges for certain merchant categories that were clearly out of policy, such as department store purchases. However, the card provider didn't offer the option to define company-specific controls in the charge authorization process—something its procurement card vendor did allow.

In fact, key descriptors were stripped off charge data that was transmitted back to the shared services center because of privacy rules in effect in different countries. For example, airline travel charges within the United States included traveler name, class of service, destination, date of, and departure. But in Australia, transactions didn't even include the name of the traveler.

This made the job of investigating suspicious transactions even more difficult. Sometimes it was a guessing game to connect the dots based on the data available.

The company turned to **Oversight Systems**, a continuous controls monitoring vendor, to automate expense monitoring. American Express sends data nightly. The

company links charges to employee numbers, which also contain reporting hierarchy—who reports to whom. Individual transactions are validated against a prescribed set of policy rules. Items that fall outside guidelines are flagged and routed to the worker and his or her manager for review and follow-on expense policy education. The shared services group also reviews the exceptions, searching for fraudulent activity and tightening policy rules to eliminate falsely flagged charges.

The Oversight product resides on a separate server co-located at the company's IT hosting facility, but it's managed by Oversight. The vendor delivered a predefined set of integrity checks for T&E data that has been enhanced over the life of the program. The shared services group simply connects to the system via a web browser. The process didn't require disruptive changes to the existing T&E system, which was a major plus for the company.

How continuous monitoring has changed the way the company works

For starters, consider the following: What happens if a traveler loses his or her card? Before, the card owner would be alerted to this when he or she attempted to reconcile the monthly statement to receipts up to 30 days later. But now with near real-time verification, the system flags transactions and alerts the worker and manager within two days of potentially fraudulent card use. This eliminates possible significant financial liability.

The corporation also has a well-established philanthropic process, managed by a central group that researches the organizations with which they chose to affiliate. Individual cardholders were charging donations to groups that came to them directly. This led to a policy change that clarified the individuals that were

authorized to contribute to charitable groups on behalf of the company. The organization's charitable profile is now far more consistent.

Before this new approach, internal audit randomly selected 10 cardholders during a regional field-office expense review. Now the company asks the shared services team to recommend staff that violated policy.

Those employees get much greater scrutiny, with a more efficient audit.

The expense-review trigger was a high-dollar amount, an unusual spend category, or an unusual vendor, previous to the continuous monitoring model. It had only reviewed 9% to 10% of suspect transactions. Now it reviews 40% to 50% of any transaction flagged for review, regardless of financial commitment. The company does this with one full-time equivalent position (in reality, three people, each committing one-third of the time).

T&E policy awareness puts subtle but definite pressure on workers to be fiscally responsible. Flying first class is not allowed. Before it wasn't noticed, but now it is. Luxury hotel stays are tagged as out of policy. Procurement policy is aligning with expense incidents,

Violations had to be flagged more quickly than in one or two months after the fact. Otherwise, workers wouldn't internalize the impact of spending outside policy.

allowing the company to negotiate discounts for local restaurants where business is routinely conducted.

Before continuous monitoring, less than 1% of all transactions were deemed personal expenses. While financial exposure was relatively modest, the company achieved its policy objective. Today, personal expense charges are down 50%.

Lessons learned

Here are some examples:

- **Up front, determine what constitutes “success.”**

Some companies are hell bent on ensuring any investment returns huge financial gains, especially in tough economic times. In this case, the organization clearly articulated what it wanted to accomplish: establish effective controls, foster fiscal responsibility and accountability, eliminate entitlement spending, and ensure consistent policy. They guide all decisions for this project.

- **Apply technology in innovative ways to achieve success.** Before, expense monitoring was an arduous, manual activity. Now it's a streamlined process, with automatic alerts and in-context workflow. The company chose to follow a continuous monitoring model rather than automate audit activities because it closely matched its objectives. It took a concept

that was well-established for other financial transactions and applied it to travel expenditures.

- **Cultural adoption is critical.** The company's cautious culture dictated it would need to gently encourage workers to follow expense policy. By involving managers in the process, it sent a strong message that this was important to company management at all levels. It could have come down like a ton of bricks on offenders, but it knew that wouldn't work. All processes were designed with culture in mind.

- **Expand programs when new information becomes available, if it makes sense.**

Later this year, the travel card provider will deliver detailed data on individual charges. Today, a hotel bill is captured as one transaction. Folio charges will itemize all expenses included in that charge—room, tax, food, liquor, entertainment, and so on—and each can be reviewed for policy alignment. New validation rules need to be created to monitor expanded data. For privacy reasons, employees must acknowledge they agree to this new level of detail; it has become a new condition to obtain a travel expense card. Projects need to expand and change as new options become available. However, each project needs to evaluate the benefit in light of cost to implement.