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Best Practices for Expense Reimbursement

July 26, 2022

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  - Participate in entire webinar
  - Answer polls when they are provided

- **Groups**
  - Group leader is the person who registered & logged on to the webinar
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  - Complete group attendance form
  - Group leader sign bottom of form
  - Submit group attendance form to trainings@forvis.com within 24 hours of webinar

- If all eligibility requirements are met, each participant will be emailed their CPE certificate within 15 business days of webinar. Due to the large volume of certificates of completion issued, requests to re-issue lost or misplaced certificates will be honored up to 60 days following the webinar

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Meet the Presenters

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Agenda

- Statistics

- Regulations

- Best Practices

- Story Time

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FINANCIAL TRANSACTIONS = RISK

- 51% of organizations have seen more fraud during the pandemic

- 86% of occupational frauds are asset misappropriation

- Median losses = $100,000

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Per 2021 ACFE Survey

NONPROFIT STATISTICS
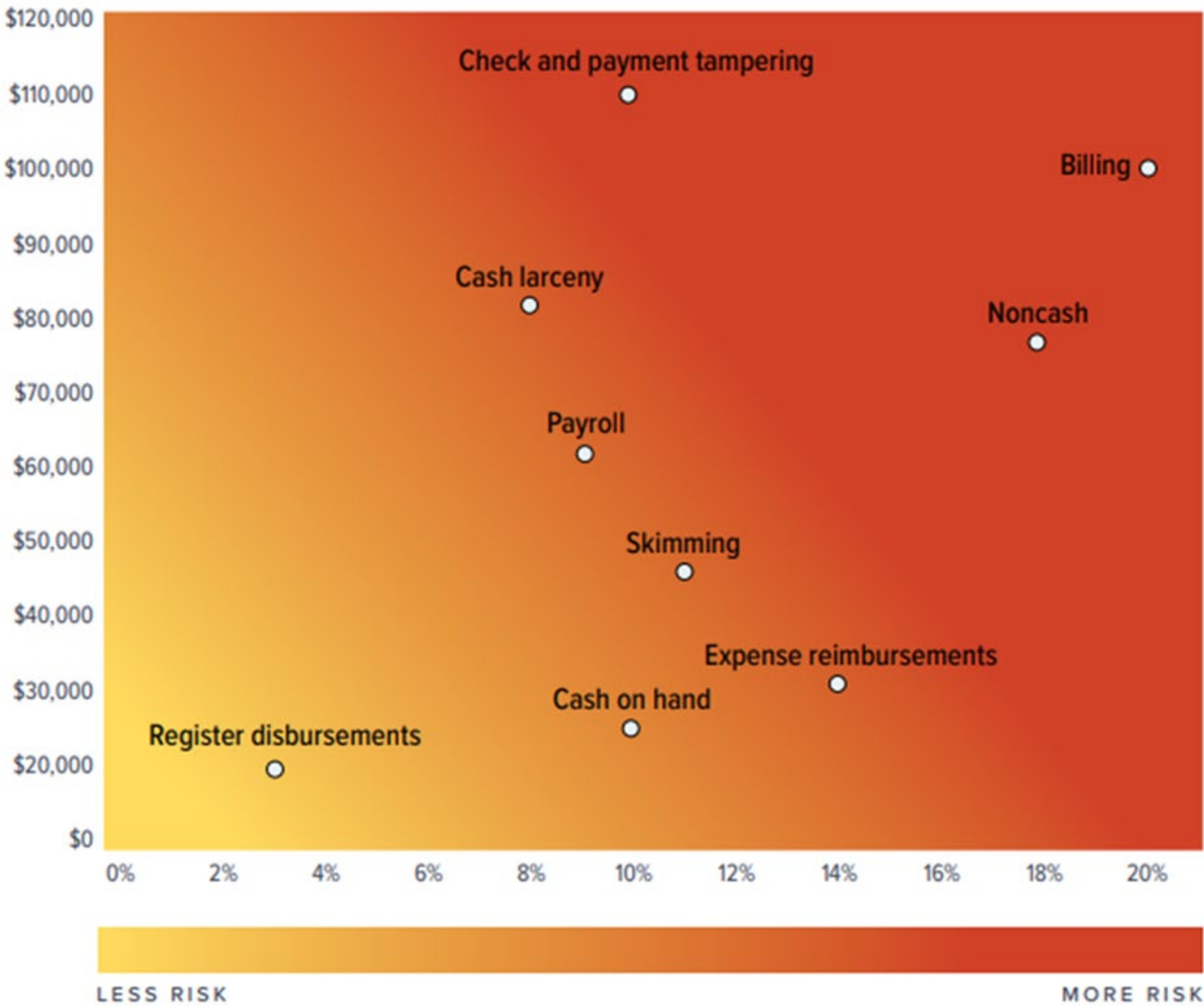
MEDIAN LOSS	$75,000
AVERAGE LOSS	$639,000

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FIG. 5 **What asset misappropriation schemes present the greatest risk?**
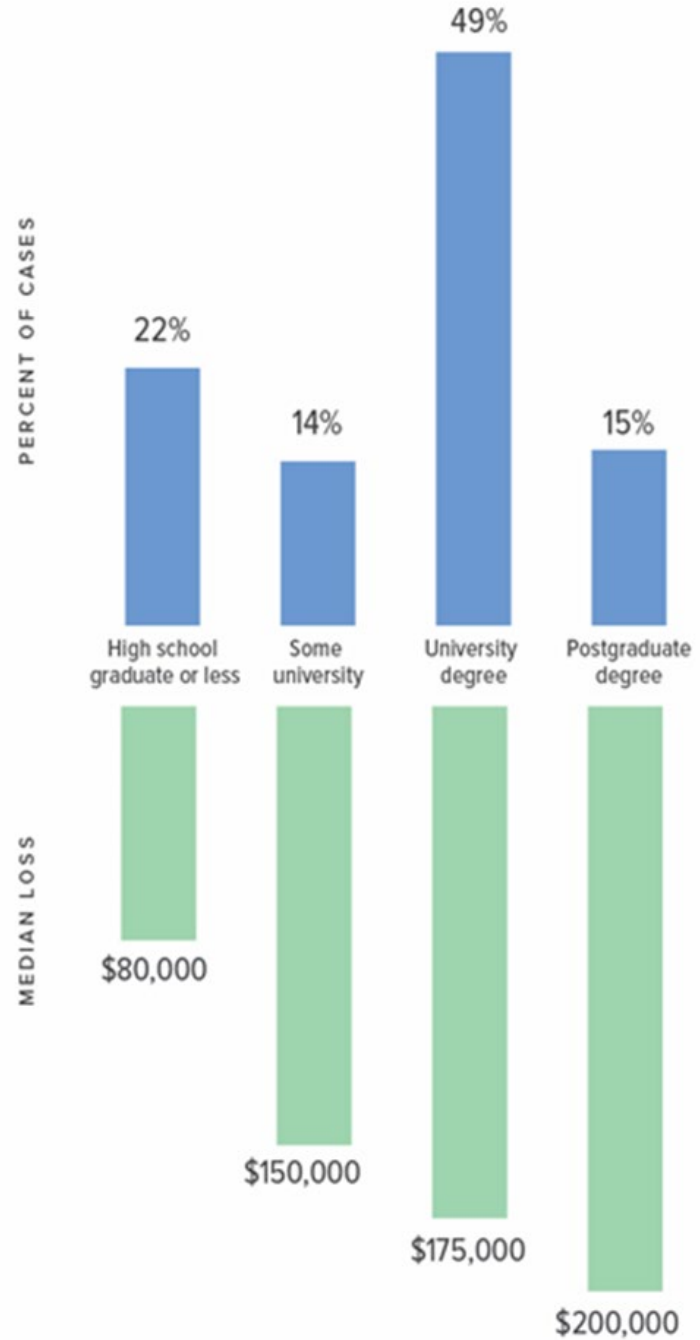
Perpetrator Demographics: Tenure

	PERCENT OF CASES		MEDIAN LOSS
<1 year	9%		$50,000
1–5 years	46%		$100,000
6–10 years	22%		$190,000
>10 years	23%		$200,000
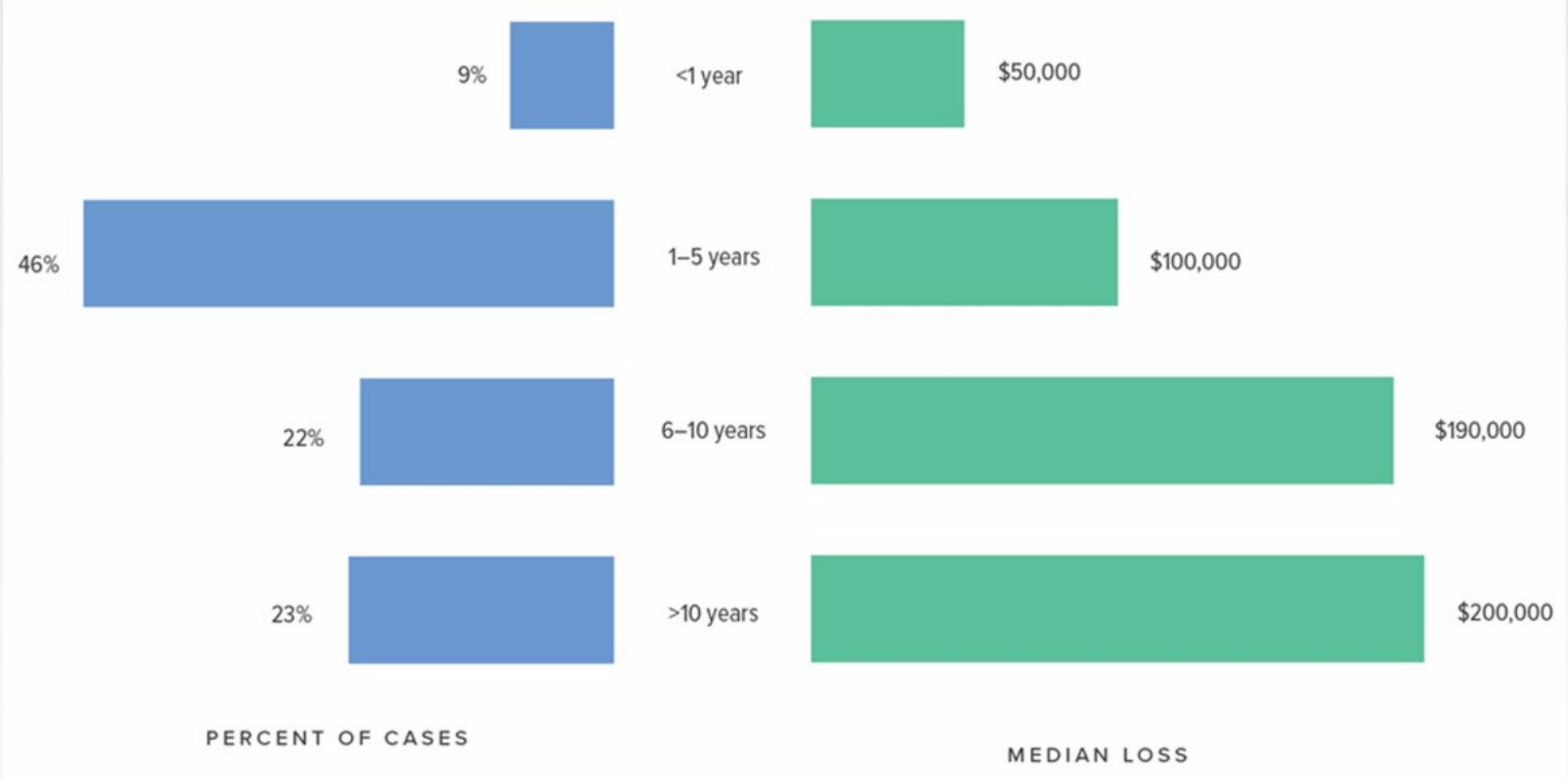
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Perpetrator Demographics: Gender & Authority

Per 2020 ACFE Report to the Nations

Perpetrator Demographics: Education Level

Per 2020 ACFE Report to the Nations

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How long do schemes last before discovery?
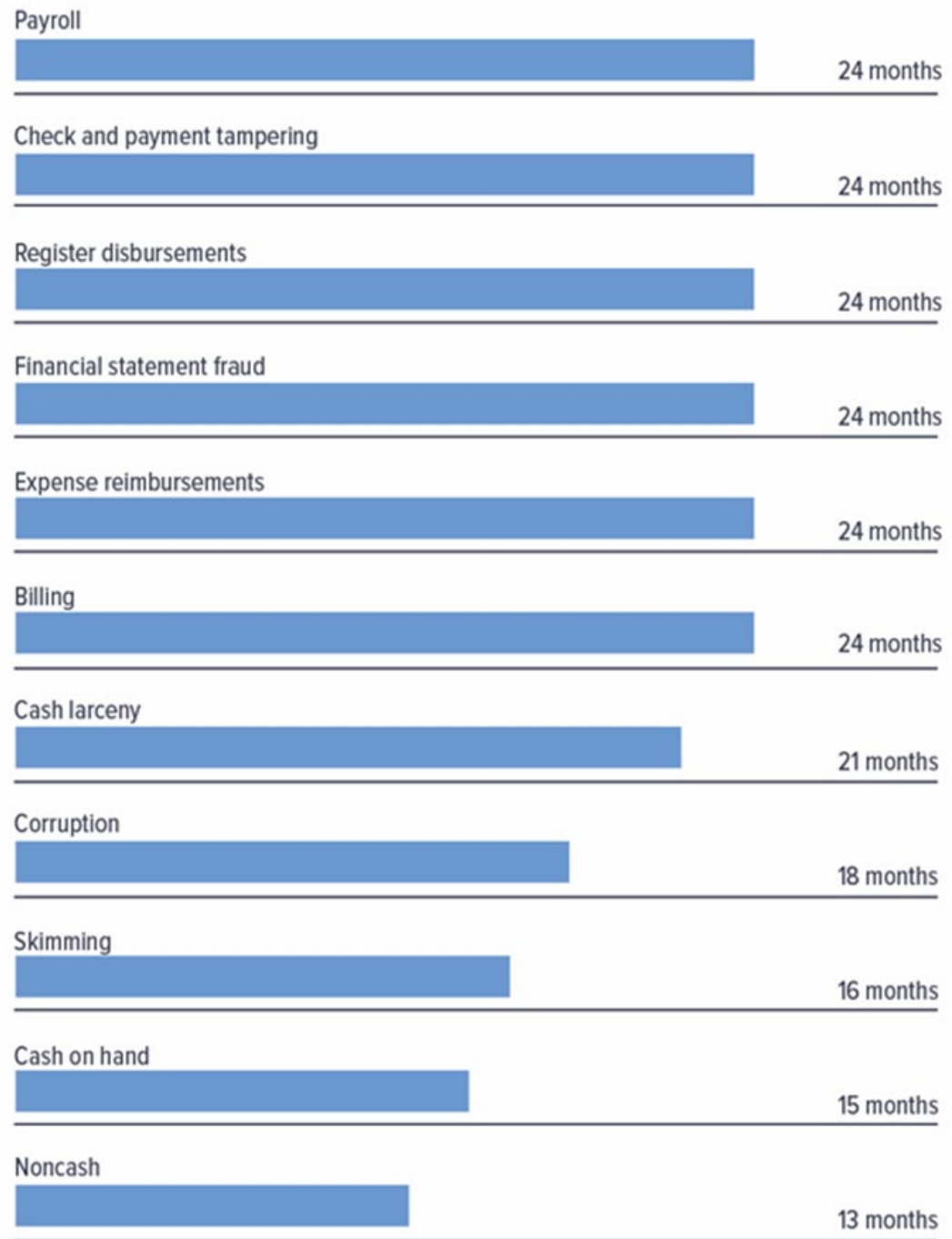
Per 2020 ACFE Report to the Nations

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85% of all perpetrators displayed at least one behavioral red flag while committing their crimes

7 KEY WARNING SIGNS

42% Living beyond means

26% Financial difficulties

19% Unusually close association with vendor/customer

15% Control issues, unwillingness to share duties

13% Irritability, suspiciousness, or defensiveness

13% "Wheeler-dealer" attitude

12% Divorce/family problems

Per 2020 ACFE Report to the Nations

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How is fraud discovered?

How is fraud discovered?	
Tip	43%
Internal audit	15%
Management review	12%
Other	6%
By accident	5%
Account reconciliation	4%
External audit	4%
Document examination	3%
Surveillance/monitoring	3%
Notified by law enforcement	2%
IT controls	2%
Confession	1%

Who discovers fraud?

Who discovers fraud?	
Employee	50%
Customer	22%
Anonymous	15%
Vendor	11%
Other	6%
Competitor	2%
Shareholder/owner	2%

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Per 2020 ACFE Report to the Nations

Lack of reporting mechanism, <1%

Lack of clear lines of authority, 2%

Lack of employee fraud education, 3%

Lack of independent checks/audits, 5%

Lack of competent personnel in oversight roles, 6%

Other, 6%

Lack of internal controls, 32%

Poor tone at the top, 10%

Override of existing internal controls, 18%

Lack of management review, 18%

What are the primary internal control weaknesses that contribute to occupational fraud?

Per 2020 ACFE Report to the Nations

Internal Revenue Service

Your <u>reimbursement</u> <u>plan</u> ensures <u>accountability</u> in order to exclude reimbursements from taxable income

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Accountable Plan Information

IRS Publication 463, Travel, Gift, & Car Expenses

IRS Publication 15, Circular E, Employer's Tax Guide, Section 5

"Generally, payments made under an <u>accountable plan</u> are excluded from the employee's gross income & are not reported on form W-2... Payments made under a <u>nonaccountable</u> plan are reported as wages on Form W-2 & are subject to federal income tax withholding & social security & Medicare taxes."
(Form W-2 Instructions)

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Accountable Plan Requirements

- Reasonable & necessary expenses paid while performing services as an employee

- Substantiated within a reasonable period of time

- Amounts paid in excess of substantiated amounts must be returned to the organization in a reasonable period of time

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Non-Accountable Plans

- If you fail to meet the requirements for an Accountable Plan, our plan can be deemed nonaccountable

- Reimbursements are treated & reported as taxable income

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Per Diems & Mileage

- Mileage rates – IRS Publication 15B

- GSA.gov/PerDiemRates

- Amounts paid in excess are treated as wages

Organizational Culture

- Accessible processes

- Lower employee financial burden

- Equitable treatment

Best Practices

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#1 PAY FEWER REIMBURSEMENTS

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Purchasing or Credit Cards

- Control
  - Types of merchants
  - Periodic spending Power

- Analyze purchasing Behavior

- Standardize/automate documentation

- Empower employees

- Reduce employee cash burden

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Credit Card Policy Tips

- Disallow personal charges

- Issue cards to a person, not a department

- Require cardholder training

- Specify fraudulent activity reporting procedure

- Communicate consequences for misuse

- Establish approval workflow

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Internal Travel & Purchasing Sites

- Automate policy compliance

- Negotiate rates

- Standardize products/services

- Monitor purchasing behavior

- Ensure use of sales tax exemption

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Designated Travel Coordinator

- Single point of contact for travelers

- Ensure policy compliance

- Single point of purchasing for travel

- Relationships with travel providers

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Prepaid Cards for Per Diem

- Reduce employee burden

- Reduce risk of carrying cash

- Reloadable cards increase efficiency

- Reduce fraud risk of higher credit limits

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#2 BUILD GOOD FENCES

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Set Travel Standards

- Fly vs. drive guidance

- Rental car vs. personal car guidance

- Authorized driver training

- Spouse travel policy

- Meal limits

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Mileage (IRS Pub 463)

- Define work location

- Clarify when mileage is reimbursable

- Check for rate updates

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Storytime – Mileage Schemes

STORY TIME

Mileage Schemes

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Purchasing Compliance

- Supplies

- Computer hardware & software

- Food/catering

- Promotional items

- Procurement processes

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Professional Development

- How many people at a given event?

- Annual dollar limits

- Conference hotel vs. lower cost

- Knowledge share expectations

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Respect Your Sales Tax Exemption

- Set a limit & enforce it
  - Amounts
  - Types of purchases
  - Types of vendors

- Train employees

- Evaluate hotel occupancy tax

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Personnel with a Corporate Credit Card

Limit cash reimbursements to

- Mileage

- Per diem

- Cash tips

- Other small cash-only items

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Per Diem Rates

- How much per day?

- What is it meant to cover?

- Advance or arrears?

In-Kind Expenses

Most often

- Board travel/mileage

- Discounts on purchases

Time Limits for Claims

"A reasonable time period depends on the facts & circumstances"

- Follow IRS guidance (Circular E)

- Align with business/closing cycle

- Consistently apply & enforce

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#3 Maintain Documentation

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IRS Documentation Standards

- Amount

- Date

- Place

- Essential character of the expense

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Essential Character of the Expense

- Vendor

- Items or services purchased

- Business purpose

- Payment method

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#4 Perform Monitoring Activities

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Approver/Reviewer Training

- Define responsibilities & authority

- Policy compliance

- Procedural guidance

- Common fraud schemes

Activity Monitoring

- Split transactions

- Transactions approaching procurement thresholds

- Most frequent vendors

- Irregular vendors (PayPal, eBay, auction sites)

- Random transaction audits

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Board Monitoring

- Executive reimbursements

- Executive credit cards

- Wire transfers

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Related Party Evaluation

- Financial Statement Disclosures

- Form 990 Disclosures

- Evaluate Conflicts of Interest

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Team Level Reviews

- Frequent vendors

- Big spenders

- Duplicate submissions

- Skirting approval workflows

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STORY TIME

The Lanyard Collector

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So how did they do it?

- Expenses for a single trip on different statements

- Lied about being a speaker

- Booking their own travel

- Used lots of acronyms for conference organizations

- Mischaracterized vacation trips as business trips

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How did they get caught?

- Executive meeting rescheduled due to travel for supposed program site visit

- Someone asked that program director why HE wasn't on the trip

- Internal investigation

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Post-Travel Reports

- Accumulate Expenses
- Document Business Purpose
- Ensure Value
- Knowledge Share
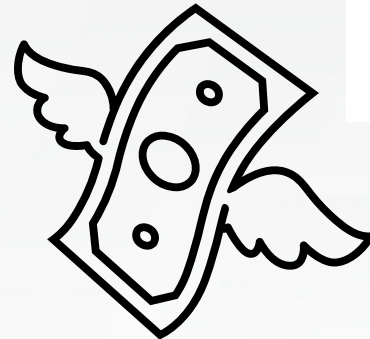
#5 Consider Your Employees

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Consider Your Employees

- Who is floating cash to your organization?

- Are your processes efficient & accessible?

- How long does reimbursement take?

- Are you enforcing policies consistently?

- Are your fences electric?

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Questions?

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