Expense Reimbursement fraud

Before discussing the issue let me put the figure first..As per Association of Certified Fraud Examiner (ACFE) latest report on “Report to the Nation 2008”, out of total 959 cases reported in the survey 127 cases approximately 13.2% cases comes under Expense reimbursement fraud category with a median loss of $ 25,000. Since there is no another figures available on the subject it could be understood the gravity of the fraud which are done only by the employees. This are the cases which got identified and reported, there could be many cases which get unreported.

An Expense fraud can be categorised in the following four types

a) Expense incurred but claimed under different head for e.g expense incurred in traveling expense but claimed as conveyance
b) Expenses claimed more than what is incurred for e.g incurred Rs. 200/- as conveyance but claimed Rs.500 /-.
c) Fictitious expense claimed for e.g Fraudulent expense of Rs 1,000/- claimed even it is not incurred.
d) Multiple expense claimed for e.g conveyance expenses claimed twice.

Expense fraud are more common as employees doing it are aware of the acceptability of practices in existence and due to small nature and value which would be difficult to caught and prove otherwise. However employee are not aware that if caught strict penal action would be taken.

All the organisation irrespective of their sizes, are aware of the problems and have implemented appropriate controls to prevent and detect the frauds. But irrespective of the internal control the fraud do happen due to nature and value of expense fraud which is difficult to establish.

As per ACFE report the perpetrator of expense frauds are across all level. People involved are from Executive and Upper management to people in Account and Finance to people at Operational level. Hence it is not limited to certain level or section of people. Due to this very nature of fraud, it become very imperative that any suspected cases are handled properly.

Some know expense fraud incidents..

- KPMG Director admits expense fraud of GBP 500,000[1]
- UK MP's expense claims to be investigated by the police[2]

Why the frauds are committed by the staff?

The basic principal on why people do fraud revolve around three things which is know as Fraud Triangle. The Fraud triangle includes Opportunity, Incentive/ Pressure and Rationalisation. Any or all the three elements would be found in any fraud cases.

Looking closely the nature of expenses fraud it could be observe that rationalisation is the main driving factor of doing the expense fraud because the fraudster would be able to cover up the fraud without being caught. As many of the companies expense claim policy would require

1 Source http://www.financialdirector.co.uk/accountancyage/news/2248475/kpmg-director-admits-500-fraud
2 http://news.bbc.co.uk/2/hi/uk_news/politics/8110022.stm

supporting document to claim reimbursement of expenses which would be easily forged or could get from the shops at certain percentage of commission or freely.

Incentive do occur as it is an easy money available to them. The expenses would not have been incurred but are claimed which bring extra money to them. This may be one of the driving factors for the people to do the fraud.

Opportunity may exist due to lax internal control. All companies have written down policies on claiming various expenses when on official tour and for local conveyance. Th policy is more skewed towards supporting document and approval of the seniors for claiming the expense.

The lax attitude towards verification of documents and questioning the genuinity of expenses if any doubt arise assist in committing the fraud.

First question before framing any policy, process and developing any system would be to ask why do employee commit expense fraud when it is know that if caught implication would be severe.

The following can be answer to above as to why the expense fraud is committed and not easily detected and or prevented

- Non or ignorance during verification of the genuinity of the transaction
- No deterrence created
- Non monitoring of the expenses by the independent group
- Audit is more concerned with availability of supporting documents
- Loose internal controls
- Expenses are considered in individuality and not in totality of the expenses incurred by a single person. For e.g An employee may be claiming Rs 1,000 /- as an expenses each time but overall in a year claimed Rs 1,00,000 /-
- Improper framing of expense reimbursement policy

How the Expense fraud is being committed

The Expense fraud can be committed by any one of the following means though the list is inclusive and not exhaustive

- Employee claims reimbursement of fictitious expenses for e.g Employee claim travel expense though travel didn't happen.
- Employee inflates the business expenses
- Employee claiming personal expenses as business expenses
- Employee claims expenses twice with the help of other employee
- Employee may manipulate the vouchers, bills, receipts to prove the expenses as genuine expenses.

Steps to be taken to prevent and or detect the expense fraud

Though it is difficult to detect and prevent fraud of such nature, if proper control is not implemented however a proper policy , process and controls are needed to prevent such fraud to be done and to deter employees from doing such a fraud . The steps can be briefly divided into three parts which is Policy, Process and Monitoring.

Policy

The company should have a clear and laid down policy without any ambiguity on Travel and expense claim policy. Though the list in inclusive and not exhaustive, it can contain the following :-

- Details of expenses claimable - What are the types of expenses which can be claimed. e.g policy may include the nature of expense which can be claimed while touring for business purpose like Food and beverages, conveyance, lodging charges, miscellaneous expenses.

- Limit per head of expenses like Food and Beverages, Boarding and Lodging etc
  It should be clearly specified as part of the policy of the maximum amount can be claimed per day and grade wise if applicable.

- Documentation and supporting required for claiming expenses.
  Original documents required for types of expenses, exception etc. need to be clearly mentioned in the policy document. In case of any exception the authority who can approve the exception should be specified. It would be idle if the approving authority is two level up.

- Preferred mode of payment like corporate credit card , direct credit to employee account or cash etc
  The policy document to clearly specify the preferred mode of payment. It is advisable to spend business expenses through corporate credit card as it reduces the chances of fraud .

- Approval matrix
  It is always advisable to claim expense by your immediate senior. however it should also clearly mention in the policy that in case both boss and the subordinate are traveling the boss should claim and not by the subordinate.

- Mode of Travels like rail, road, air etc.

- Responsibility of person authorising the claim and person who is processing the claims should be clearly defined.
  It is generally observed that person who authorise the claims is responsible to ensure the genuinity of the voucher submitted and once approved the person processing the claim doesn't look into the authenticity of the claims. The policy should clearly specify the steps to be taken by the person for any claims and if required the accountability matrix need to be defined if the process is not followed.

Process

- Expense claim policy should clearly specify the process of submitting claims for travels , conveyance and various other expenses.
- It is suggested to make it mandatory to claim the reimbursement within reasonable time of traveling and without much delay
- Reimbursement to be made either directly to staff account or through cheque.

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Monitoring

Monitoring of expense claims is the most important steps to detect and to prevent fraudulent claims. The same can be achieved by developing an indicators i.e red flags to identify the potential fraudulent claims. Red flags would help to identify the claims where the probability of suspicion is high and could lead to detection of fraud schemes. Various Red flags can be developed based on analysis of past fraud cases.

Almost many large organisation would be using computer system for managing expenses claim, approval , and settlement hence the flags can be developed around the same system which can throw alerts matching the criteria.

Some of the Red flags which can be thought of

1) No of expenses of similar nature claimed by same employee during the last “n” periods. The “n” can be number of months or quarter. The number can be determined by doing analysis of past expenses claims of the company so to arrive at the number which can provide reasonable alerts.

e.g An employee claiming local conveyance expenses frequently for same/different place. There is a probability that the employee may be putting a false claim.

2) Time taken to approve expenses claim by the same manager. It is required by the manager approving the expense to verify the details before approving the expenses to understand the purpose of the expenses. However it generally happens that the manager approves the expenses without giving enough time to the details as it may be considered non essential. The time stamp of approving the expenses by the manager for various claims on the same day should also be reviewed to verify the expenses details

3) The IP address from which the employee has put the claim and the IP address from which the manager has approved the claim. tracking of IP address usage by the employee would be helpful to detect any misuse of password by the employee. In case of computer system the claim is approved through system and to access the system manger password is required which is supposed to be known by the manager only. However there may be scenario during which the password is know by the subordinates and which can be misused by any subordinate for entering and approving expense claims.

Trigger should be created if the IP address is same for both entering and approving the claims.

4) Expense limit to be monitored. Any employee claiming expense beyond a particular threshold limit for each category to be monitored and scrutinised with due care.

5) If the system is capable the IP address mapped to the approver should be scanned with the ip address captured at the time of approving the claim by the same manager. It will be in exceptional situation that the manager approves the expense claim from some other PC and not on a regular basis.

6) Training for identifying the genuinity of the documents submitted in support of the claim should be imparted with the admin team handling expense payable task. Some of the alert could be

a) Serial number of the bill submitted for claiming similar type of expenses from one place. e.g restaurant bill submitted
b) Ink used in various bills submitted
c) In case of computer generated bill to check the time stamp if available

7) Profiling of expenses in terms of high and low probability of risk. for e.g local conveyance expenses is high risk as no supporting is required. Hence such expenses to be monitored and verified diligently. Food / Restaurant expenses as a proportion of total travel expenses if on a higher side to be monitored and verified as supporting for such expenses is easier to obtain.

8) Proper scrutiny of all the expenses claimed and paid during "n" period of all the employees beyond a cut off limit. Say employee claiming expenses of more than Rs.25000/- during the review period.

9) In case of direct payment of expense claim to employee account, system should be capable to detect any duplicate account mentioned against two different employee.

10) System should be triggered to detect any claim entered for the same day and same location by the same employee in two different date to detect any claim entered twice.

11) The expense system should be integrated with the employee access record system if installed to detect any fraudulent claims entered by the employee claiming on official visit whereas the employee was at the office premises or on leave.

The list above is inclusive and not exhaustive and there can be various other trigger which can be developed based on various case studies and modified to suit the requirement.

In the end I would like to say that the expenses reimbursement fraud is accepted by at large at all level of employees. You may hear that employee has put claim in excess then what the employee has actually incurred by a little amount say Rs.100/ -. This type of cases are difficult to detect unless identified due to whistle blower. Thus in order to stop the practice the company need to ensure that policy is communicated to all the employee with strict consequence if identified like termination of employment. The strict adherence to the policy would ensure that the expense fraud incidence would be reduced.

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