

Fraud Prevention Tip of the Month from



EXPENSE REPORT PADDING - NOT ON MY WATCH!!

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Think it can't happen to you? Think again. Reimbursement of expenses is common practice in business. Unfortunately, Reimbursement Fraud is also very common and could be draining your company's coffers. According to the Association of Certified Fraud Examiners' 2010 Report to the Nation on Occupational Fraud and Abuse, Reimbursement Fraud accounts for about 15% of all fraud committed. Losses from an individual expense report may not seem material compared to other types of fraud schemes; but if controls are lax, then it's possible that many employees are padding expenses. Over time, the losses can grow to be very material! In addition, employees who get away with falsifying expense reports commonly move on to other types of fraud. Isn't it time to ensure that you have internal controls in place to identify and eliminate reimbursement fraud?



DEFINING EXPENSE REPORT FRAUD

The most common expense reimbursement schemes perpetrated by employees are reimbursement for fictitious and/or inflated expenses. Fictitious expenses include personal charges, cancelled airfare, conference registration fees, reimbursement for items that were never purchased, and duplicate expenses. Examples of inflated expenses include adding additional gratuities, expenses in excess of per diem, booking airfare at a higher class than policy allows, and exaggerating mileage totals.

LESLIE WAS CREATIVE TOO

Leslie was an administrative assistant to the Creative Director (Mr. Couture) at Fashion Forward, Inc. Leslie was friendly, outgoing, and extremely dedicated to Mr. Couture. She was always looking for ways to lessen Mr. Couture's workload, and knew that her boss hated to review expense reports. Leslie offered to take over the detailed review, so Mr. Couture gave her a comprehensive lesson on what to look for. Before long, he just gave the expense reports a quick once-over before signing them. Because she did such a good job, after a few months, Mr. Couture asked Leslie to approve the reports on his behalf. What seemed like a load off his back had actually become quite the opposite!

Leslie was good at managing her money, but she was stretched to her limit. When her car broke down, Leslie didn't know how she would be able to pay for the necessary repairs. Then she remembered the expense reports and all the ways Mr. Couture had explained to her that reimbursement fraud could occur. This, she decided, was the answer her problem! After all, she worked very hard and had brought several suspicious expenses to Mr. Couture's attention since she had begun reviewing expense reports.



Leslie purchased fully refundable airfare for an upcoming trip for several buyers, but after she got the receipt, she cancelled the reservations and rebooked the cheapest non-refundable tickets. She submitted the higher receipt with her expense report; and then, of course, pocketed the difference. Even though her auto repair bills had been paid, Leslie saw how easy it was for her to be reimbursed for fictitious or inflated expenses. She was hooked! Leslie began submitting credit card statements as support for her expenses instead of detailed receipts. She would often then submit the individual receipts for reimbursement on subsequent expense reports. Leslie also began to request reimbursement for random office items priced right below the \$25 limit; so a receipt was not required.

As time passed, the company grew and management decided to build a more robust Internal Audit Department. When the Internal Auditors performed a travel and expense audit on employees who had the highest expenses, they were shocked to learn that Leslie had submitted expense reports for over \$70,000 in the past year. Could she really have that many administrative expenses?

PREVENTION IS THE KEY!

Fraud often starts small and grows; so it is important to implement fraud prevention and detection controls before your company suffers losses. Following the tips below will start you down the path to lowering your fraud risk!

- Maintain a strict and detailed travel reimbursement policy that is distributed to all employees.
- The policy should address the penalty for falsifying expenses.
- Require original receipts with expense reports.
- Carefully review expense reports for duplicate receipts and unusual items.
- Perform routine audits of employees with high expenses.

For more information on fraud prevention and detection, please call Lori Payne at (805) 527-1499.

About Payne Financial Forensics

Payne Financial Forensics is a financial consulting firm, specializing in Forensic Accounting; Fraud Investigations; Litigation Support, including Bankruptcy and Insolvency related litigation; and Expert Testimony.

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