



WHITE PAPER

13 Expense Management Best Practices for Non-Profit Organizations

INTRODUCTION

Non-profits have a unique challenge in travel and expense (T&E) management. Every dollar spent on employee and non-employee volunteer expenses takes a dollar away from performing its core mission. This heightened need to monitor and control costs to avoid wasteful spend, means that building an effective travel and expense policy is even more critical.

Whether you are planning to write your first travel and expense policy or you are a travel veteran who has had one in place for many years, it's always good to look outside your own bubble and see what other non-profit organizations are doing to effectively manage their employee and non-employee volunteer spend. This process enables you to refine and enhance your own expense management program and incorporate these best practices.

The best-performing T&E policies and programs are customized for each organization. Best practices need to be defined, implemented and tailored to the organization's specific needs in order to have a successful expense management process.

Chrome River is trusted by more than 50 non-profits around the world, from regional, community-focused groups to major organizations with thousands of employees and non-employee volunteers. We have a deep understanding of the challenges and issues specific to the non-profit sector, and work with our customers to develop and implement expense management programs tailored to their specific travel needs.

This guide is based on more than a decade of direct experience. It covers 13 of the most effective expense management best practices, which have been collected first-hand from a wide range of non-profits around the world, and could have a meaningful benefit to any organization's T&E programs.

1. Implement a Per Diem System

Per diems are commonly used by non-profit organizations, as they offer a simple way for finance teams to pay and account for T&E spend. Rates are set by location based on government-specified calculations for both domestic and international locations. This ensures that travelers have a sufficient allowance to cover their costs, even when traveling to high-cost locations such as London, San Francisco or Tokyo. They take a variety of factors into account, ranging from average hotel bills to meal and transportation costs.

Per diems are typically secured in advance through a pre-approval process [see below], and can be offered either as a direct cash advance or by (re-)loading a payment card. In addition to offering an efficient way for travelers to make purchases, per diems also offer an effective cost-control safeguard for the issuing organization, ensuring that individuals can't misuse the expense process by making out-of-policy purchases. As an extreme

example, should an individual choose to dine at a Michelin-starred restaurant, they will be responsible for any costs over the per diem allocation, and there is no mechanism for them to reclaim the excess spend.

2. Require Pre-Approvals

Mandating pre-approvals for travel and other large purchases can greatly reduce the opportunity for over-spend—either inadvertently or through deliberate expense abuse. This is particularly effective when combined with per diems, which provide a full audit and approval trail for travelers' spend.

Pre-approvals often work in conjunction with an organization's purchasing card program, or a "ghost" card (a single, centralized card number used across a department or organization) for travel booking. Although travelers can browse and select their

items/tickets, they can't complete the purchase until approved by a supervisor. These systems work by alerting approvers (who may differ for different transactions, dependent on the size of the purchase, per the organization's policies) of a pre-approval request. The approver (or approvers) must then give their approval prior to the purchase being made or the travel booked.

Another example of leveraging pre-approvals to streamline the overall process, is using it as the starting point for an expense report. Travelers can submit a pre-approval request through the system for a specific purchase or an entire trip. Once the trip is complete, the approved pre-approval can be "flipped" to an expense report, and transactions related to the trip are automatically allocated to the report within the expense solution. This eliminates duplicate entry of trip information and further streamlines the accounting and reconciliation/reimbursement process.

3. Build an Accountable Plan

According to the IRS, every organization's expense reimbursement or allowance arrangement must include all of the following rules, to be considered having an accountable plan:

1. The expense must have a business connection. Deductible expenses must be incurred while performing services as an employee on behalf of the employer.
2. Expenses must be submitted promptly. Expenses must be adequately accounted for within a reasonable period of time.
3. Overpayment of expenses must be returned in a timely manner. Any excess reimbursement or allowance paid to an employee must be repaid to the employer within a reasonable period of time.

The definition of "reasonable period of time" depends on the facts and circumstances of the situation. However, actions that take place within these timeframes will be treated as taking place within a reasonable period of time:

- An advance is received within 30 days of the time an expense is incurred
- Expenses are adequately accounted for within 60 days after they are paid or incurred

- Excess reimbursements are returned within 120 days after the expense is paid or incurred
- An employee provides an adequate accounting of outstanding advances within 120 days of receiving a periodic (at least quarterly) statement

As an additional requirement in developing an accountable plan, IRS Code Section 274(d) states that substantiation requires an employee to submit the following items with adequate records (such as receipts):

- Amount of the expense
- Time and place of the expense
- Purpose of the expense
- Professional relationship of the employee to the persons receiving a gift, being entertained, or utilizing a facility or property

Given all these rules and regulations, it's extremely important that organizations review their travel policy and guidelines documentation with employees on a regular basis as updates occur, or at least on an annual basis.

4. Initiate a Credit Card Program

Employer-provided "corporate" card (or p-card, travel card, meeting card, and/or virtual card) programs are plentiful and highly competitive, and offer numerous financial and operational benefits. Here are just a few of the many benefits a good card program can offer:

- Financial incentives and rebates for all purchases. Corporate cards offer a cashback rebate for all spend, which can deliver significant benefits—in fact larger organizations can receive six-figure rebates on their annual card purchases.
- Corporate cards reduce the cost of expense report handling. By integrating card data into T&E systems and automatically reconciling receipts with card data, the need for employees to rekey their expenses is eliminated, and the accuracy of the captured data is improved. This reduces the time employees spend creating expense reports, and the time approvers spend ensuring compliance.

- The use of corporate cards reduces the number of falsified receipts. An example of this is a dinner bill that includes a 10 percent tip, but the employee turns in a claim for a 20 percent tip. Using an employer-provided card eliminates both the incentive and means to do so.
- Carrying a corporate card eliminates the need for cash advances, which not only streamlines processes for the organization but also eases the process for the travelers themselves.

A common concern that organizations have about corporate cards is that employees can incur charges on their corporate card (and therefore the organization's liability). This fear can be mitigated by reminding employees through your expense policy that legitimate expenses will be paid provided they submit timely expense claims for those charges. Reinforcing a policy that denies reimbursement of expenses for late submissions, regardless of whether it's an employee liability card charge or an employer liability card charge, is usually plenty of motivation for most users.

Organizations can also eliminate any concern about illegitimate card use by providing pre-loaded physical or virtual cards based on per-diems or pre-approvals. This enables them to offer the convenience of an employer-provided card without the liability of excess spending.

Finally, if you combine your card program with an automated expense management system, your organization will have full visibility into every card transaction, minimizing the risk of duplicate reimbursement if someone accidentally submits a receipt separately for a transaction that was paid via an organization liability card program. This visibility minimizes misuse concerns as well since compliance rules are automatically enforced as mentioned below.

5. Automate Policy Enforcement

Enforcing policy in a spreadsheet-based environment typically involves several employees verifying expenses, who could be adding more value to the organization in other ways. Using an expense management system, expense policy compliance rules are applied through the use of a 'rules engine,' ensuring

all expenses are validated upfront against the organization's expense policy, as well as any parameters specific to any grant allocation which may be funding the expense.

With an automated process, when a traveler attempts to enter an expense that is not compliant with policy, the expense item is immediately flagged. Depending on the type of infraction, the traveler may be asked to provide an explanation. Approvers determine the outcome or may remove the item from the expense report altogether. If personal items are charged to an organization-paid corporate card, expense owners can mark the item as personal, in which case the expense is automatically deducted from their out-of-pocket reimbursement.

6. Clearly Document the Approval Process

Many organizations' expense approval processes aren't codified or communicated effectively, which can lead to reimbursement delays and other inefficiencies. By taking a step back and thinking about roles, responsibilities, and delegation of authority, it becomes easy to build an approval matrix that can be automated within an expense management solution—particularly one that employs a sophisticated business rules engine that can handle virtually any combination of criteria.

Approval routes can be built based on hierarchy, transaction value thresholds, expense allocation coding/grants, attributes of the expense owner, and many additional criteria. Typical approval routing should have two to four levels of approval. Too few approval levels and organizations may not be adequately reviewing their expenses. Too many, and it becomes complex to execute and maintain. Most organizations prefer accounts payable staff serve as the final step in the approval process before the approved voucher is exported to the financial system for payment.

7. End Penny-Wise-and-Pound-Foolish Audit Practices

Auditing 100 percent of expense reports is poor use of time and resources, and gives the finance team a false sense of security. To ensure an effective auditing practice, accounts payable groups need to take a more methodical and calculated approach. An important decision to make is who is performing

the audit: accounts payable or audit staff? Organizations need to determine a statistically valid sample size for auditing and then have auditors—not accounts payable staff—meticulously examine expense reports and receipts. This analysis should cover the details of the current report and a three- to six-month range of expenses for a specific expense owner.

Expense owners who fail the audit should be assigned to a risk category, for example rated from 1-5. Someone who is assigned risk category five would have all of their reports audited, where expense owners assigned risk category one would only have every tenth report sampled for an audited. Each organization needs to determine their appropriate statistical sampling.

When an audit is completed, audited expense owners should receive an email informing them of any issues that need to be reviewed or congratulating them on being in compliance with organization policies and guidelines. Conducting independent audits and discussing the results with employees has the power to change behavior across the organization.

8. Help Employees Make Good Decisions

How often do people cheat on their expense reports? Five percent of travelers admit to inflating or falsifying expenses, which can easily add up to many thousands of dollars of fraudulent spend for large non-profits. Research from Chrome River shows that few of the people who submit illegitimate expenses do so because they have an agenda of defrauding their employer. Many are opportunistic and do so because their expense processes make it easy. As such, changing the behavior of these travelers is often more a case of helping them to do the right thing. There are several straightforward fixes that organizations can implement to help reduce fraudulent expenses being reimbursed:

- Require one expense report per trip so expenses are easier to track.
- Issue corporate cards to frequent travelers. This reduces the risk of the organization never receiving credit for cancelled flights, as well as other types of potentially fraudulent transactions.
- Implement an expense management solution that can automatically identify many types of attempted expense fraud.

- Do not allow future-dated travel that is not charged to a corporate charge card.
- Establish a policy that requires the most senior employee at a meal to pay the check, to avoid the potential for collusion.

9. Take Care of Your Travelers

Many non-profits with international operations require employees and non-employees to travel to and work in challenging environments. These could include anything from conflict/refugee situations to natural disasters or areas of disease outbreak. Ensuring the physical safety of these travelers is of paramount importance, and travel risk management/duty of care is becoming more important than ever in a world that is becoming increasingly volatile due to geopolitical tensions and an ever-changing climate.

An effective duty of care plan requires both pre-travel planning and on-trip monitoring. There are a number of solutions which collect crime/public safety, health, terror, conflict, and other weather/climate-related risk data for locations worldwide, and provide this to organizations on a subscription basis. This information can then be integrated with a travel booking tool or an expense system's pre-approval module to alert approvers of potential risks and give an overall risk score. Approvers can then weigh the benefit/need for travel versus the risks that it presents when making their decision.

Once a traveler is on their trip, the travel risk management solution, combined with flight and hotel data from the travel booking solution, can be used to forewarn and quickly alert travelers of potential issues that could impact their travel.

10. Centralize the Travel Expense Process

Many of the processes described in this guide can only be put into place with the implementation of an expense management solution. Prior to implementing an automated expense management solution, most organizations require a huge amount of manual intervention to properly validate expenses against their T&E policy, and ensure these expenses are routed to the appropriate approvers prior to payment. In

large organizations, this can add up to considerable numbers of people spread across departments and campuses. By implementing an automated expense management platform, a consistent, programmatic approach replaces a substantial amount of human intervention:

- Expenses are validated against the organization's policy (as well as rules for any grant that is paying for the travel) at the time of expense entry, and employees can either be prevented from submitting a non-compliant expense ('hard stop') or they can be required to provide an explanation that will allow the approver to decide if full, partial, or zero reimbursement should be provided ('soft stop').
- Approval routing rules are applied based on attributes of the expense items or the entire report itself (e.g. allocation department, cost center, project, grant, amount). By employing a rules engine, the combinations of standard routing and exception routes are almost unlimited yet easy to create and maintain.
- Possible duplicate expenses can be flagged at the time of expense entry or audited as part of analytics reporting.
- Approvers can now focus on ensuring that proper allocations were provided for the expense and spend is appropriate, versus having to worry about compliance to the organization's policy.
- Accounting and/or accounts payable can be inserted as the last "approved for payment" approver and have complete visibility to any policy violations, explanations, management approvals, notes and threaded dialogue included along with copies of all receipts.
- Following final approval, approved expenses are automatically transferred to the organization's financial system and no longer have to be re-keyed into the financial system for payment.

As different grants require greater or lesser levels of granularity when it comes to managing and reporting spend, an expense management solution must have the capability be configured to meet specific needs. This requires the solution to have the flexibility and strength to support multiple business rules, tailored for each grantor. For complex and high-volume project tracking, organizations will also require the flexibility to automate, filter and easily allocate to various projects.

11. Make Life Easy for Your Non-Employee Volunteers

Many non-profit organizations have a significant number of non-employee volunteers who are required to submit expenses, so the expense process should make supporting these groups straightforward. A best-practice approach for this involves collecting 1099 forms from approved non-employees, and then simply importing the list into the expense reporting solution. The system can then be configured so that the expense report type can be created, applying specific policies, expense types, GL allocations, and so on.

Once non-employees' names are in the system, they typically submit receipts to a central administrator, based on the business rules already in place. Organizations can configure the expense solution to specify allowable reimbursements, or even adjust permissions so reports can be submitted by an authorized user on behalf of non-employees.

Reimbursement of non-employee volunteers also needs to be effectively managed, as they are paid as "vendors" instead of employees. It's incumbent upon the organizations to minimize the time between invoice receipt and reimbursement. Leveraging a solution which has close integrations with global payment solutions, such as Western Union, enables a speedy and smooth payment solution, and also minimizes any risks posed by currency fluctuations.

12. No Cutting Checks

In addition to being an unnecessary use of natural resources to create and mail hard copy checks, doing so also has the potential to undo some of the benefits you derived from automating everything up to that point. Organizations engaged in best-practice expense management behaviors are moving toward automated ACH or EFT payments of all expenses. Here's why:

- Reduce duplicate payments and fraud: The potential for duplicate payments and fraud increases when expenses are paid by check.
- Reduce processing time: The processing time for purchase, payment and reconciliation is reduced significantly as the overall AP process becomes more efficient.

- More timely payments: An important accompanying benefit of reduced processing time is more timely payments that can result in more satisfied employees.
- Streamline reporting: Electronic payment data reporting improves information flow by reducing the need for manual inputs while increasing reporting accuracy and improving process efficiency.
- Improve spend analysis: More comprehensive electronic data reporting on the organization's payables improves the organization's spend analysis and fosters better expense management.
- Enhance compliance: The automation generated by electronic payments increases the transparency of the AP process and fosters greater compliance with the organization's policies, procedures and IRS regulations.
- Analyzing spend by expense category to uncover opportunities for 'strategic sourcing.' By evaluating total spend on certain types of expenses (e.g. flights, hotels, car rentals), it may benefit an organization to develop a preferred relationship with one or more key suppliers. Knowing volume and being able to commit some of that volume are the keys to driving significant savings that often exceed 20 percent of total spend.
- The ability to analyze and visualize spend patterns through a straightforward visual interface makes it significantly easier to spot trends than poring through countless rows on spreadsheets. These insights can include hotspots in areas such as out-of-policy or inefficient spend, which can then be used to eliminate pockets of non-compliance, address policy gaps, or be fed back into future expense policies.
- Reports that pull together in-process card and out-of-pocket spend that are not yet exported from the expense management tool to your financial system can provide tremendous insight into accruals and assist with period-end close.
- Key performance indicators such as open approvals aging can help spot and remedy bottlenecks in processes that are causing delays in reimbursement cycle times. Compliance reporting can help spot individuals and groups that are at higher risk for policy violations, as well as providing meaningful insights into which the organization's policies may require further education and training.

13. Leverage Your Leverage

Once an automated expense management solution that includes some or all of the best practices mentioned above is implemented, it is time to 'leverage your leverage' through the use of analytics and business intelligence reporting. The fact that thousands or millions of spend dollars flow through this highly visible environment provides an outstanding opportunity for financial and operational improvements, such as:

CONCLUSION

Many organizations are still dealing with manual expense management processes that make it time-consuming and challenging to handle employee (and non-employee) reimbursements, cash advances, card program reconciliation, and traveler safety. Increasingly though, many organizations are starting to prioritize expense management automation projects so that they can help employees and non-employee volunteers get back to their main mission—providing much-needed services for vulnerable groups in challenging situations. The benefits to understanding best practices for expense management allow organizations to do exactly that, all while increasing traveler satisfaction.

It is important to choose an expense management automation platform that will allow your organization to continue to evolve and grow into new ways of handling travel and expense management. A flexible, modern platform built on current technology standards is the best way to ensure that.

Chrome River



Chrome River provides expense and invoice automation solutions that let business flow for more than 1,000 organizations worldwide. The company's easy-to-use, enterprise-scale solutions enable future-readiness for its customers. As a result of this focus on innovation, Chrome River is [rated as a Leader in expense management](#) by analyst firm IDC. Chrome River's commitment to delivering a superior customer journey by creating long-term value for its customers, makes it a preferred choice of CFOs, CIOs, AP teams, travel managers and business travelers. Details on Chrome River's customers can be found on the company's [web site](#).

To find out why more than 2 million business travelers around the world trust Chrome River, contact the company at 888-781-0088, or visit chromeriver.com and its social pages on [LinkedIn](#), [Facebook](#), [Twitter](#), and [Instagram](#).



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