

Software Keeps a Sharp Eye on Expense Accounts

Setting up an automated system to record employee expenditures can help keep inappropriate costs off the books



By João-Pierre Ruth

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Acct Date	MON	TUES	WED	THURS	FR
TRANSPORTATION					
Business Miles Traveled					
Mileage Allowance \$0.35					
Air Travel (attach Stub)					
Auto Rental					
Other Ground (Taxi, Parking, Tolls)					23.0
Tips				5.00	7.0
LODGING					
Lodging					85.0
Telephone					
BUSINESS MEALS & ENTERTAINMENT					
Breakfast					
Lunch					
Dinner					
Business Entertainment					
NON-TRAVEL BUSINESS EXPENSES					
Supplies					
Miscellaneous					
SUBTOTAL					
MISCELLANEOUS					
ACCT. DISCOUNTS					
365 Post and Storage					
248 Lightbulbs, tape					
478 Shelves					
ENTER					

Farina says the handling of expense reports can have significant effect on financial statements.

BIZ SPOTLIGHT - ACCOUNTING

Running a business requires dealing with a broad range of expenses incurred by employees. Many are valid, like bills for necessary business travel and meals with clients. Some, like those that surfaced in the recent fraud scandals at the University of Medicine and Dentistry of New Jersey (UMDNJ), cross the line and must be refused. These days more accounting departments are turning to powerful software packages to help them ferret out abuses.

“Employees often feel entitled to expense reimbursements which would not otherwise be justified,” says Joseph P. Cipolla Jr., founding partner with accounting firm Cipolla Sziklay in West Orange, and chair of the valuation and litigation services resource group of the New Jersey Society of Certified Public Accountants. “This entitlement view stems from their perception that employer expectations of more for less are becoming unreasonable.”

As employers push to make their dollars go farther, staff may react with what amounts to guerrilla warfare, finding other ways to extract cash money from the company. Some workers have devised creative—meaning fraudulent—ways to flesh out their monthly expense sheets.

A wide variety of software is available to automate expense reporting by employees and help curb abuses. Providers of expense-management solutions include ExpensAble in Irvine, Calif.; Extensity in Atlanta; and ExpenseWire in Wooster, Ohio. CyberShift in Parsippany is a provider of both work force- and expense-management software.

Scribbles on damp cocktail napkins and crumpled receipts may be the extent of expense tracking at some businesses. “Most organizations today are manually doing it,” says Craig Fearon, senior product director for Necho, a division of CyberShift in Toronto. “Some companies put together an Excel spreadsheet or maybe a paper-based form that is routed through the manager or accounting department for approval.” Necho Expense, the division’s expense-management program, automatically records and forwards expenses to managers through a Web interface.

The goal of automated systems is to make it easier to review expense claims and speed up reimbursement. “In addition to streamlining the process, which is cost-beneficial to the employer, it can also provide front-end audit functionality and back-end monitoring,” says Cipolla. Recent fraud scandals have highlighted the need for additional oversight and tighter monitoring of money spent by employees.

Infractions can come from any level of a company or institution. The fraud scandals plaguing UMDNJ have included hefty expense-account abuses. R. Michael Gallagher, the former dean of the School of Osteopathic Medicine, ran up questionable expenses to the tune of \$200,000, according to federal investigators. Those expenses included \$3,250 for alcoholic beverages and pricey meals that included \$40,600 spent at Tavistock Country Club in Haddonfield. Gallagher resigned in the spring.

Investigators later reported that Associate Dean Warren Wallace, also of the School of Osteopathic Medicine, attempted to conceal the true level of his spending. Wallace allegedly instructed employees to submit his travel tabs, at least \$2,500 worth since 2000, under their own names to avoid scrutiny.

Investigators discovered some of those bills, including travel for Wallace's other jobs; he served as a Gloucester County freeholder and chairman of the Delaware River and Bay Authority. UMDNJ fired Wallace in June. He also left the Delaware River and Bay Authority at the end of his term in June.

One size does not fit all when it comes to choosing an expense-management solution. "There is a lot to choose from and implementation can be tricky," Cipolla says. A small business may get by with a simple homegrown spreadsheet or off-the-shelf software like QuickBooks, whose price can range from \$99 to \$7,500, depending on the version and number of users.

"There are PC-based solutions you can pick up for \$50 to \$100 per person, which are the off-the-shelf commercial products that only do a limited subset of what Necho offers," says CyberShift CEO Robert Farina.

Necho Expense goes further than simply recording bills. The system compares expenses against the company's policies and flags discrepancies. For example, if a company has preset spending limits for dining, the system will call attention to an entry that exceeds the limit. "It is going to come back and ask you for an explanation as to why you spent so much," says Fearon.

The price for Necho Expense is transaction-based, rising with the number of expense reports submitted each month. With this type of software, says Farina, "Enterprise-class products can cost \$5 to \$6 per employee per month on average, or more like \$100 per employee on a licensed basis."

When employees use company credit cards, Necho Expense can automatically record the transactions directly from the issuer's Website. "The only thing they would have to enter in would be their out-of-pocket or cash transactions," Fearon says.

Federal regulations may provide further impetus to keep close watch on expenses. "Sarbanes-Oxley has certainly emphasized the need for appropriate internal controls around fraudulent misstatement of financial statements," says Cipolla. He adds that investments in a monitoring system should be based on the size of the organization.

CyberShift's Farina adds a final caution: "Anything that affects your financial statement you have to be able to audit back to its source. Payroll and expenses are big components affecting financial statements."

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