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Creating a Culture of Compliance for Company-Issued Card Usage and Travel Expenses

A WHITE PAPER FROM OVERSIGHT

Putting corporate buying power into the hands of employees makes each employee an authorized purchasing agent of a company. While travel cards and P-cards offer a certain level of convenience and distributed buying power, they can also significantly increase the chances for non-compliant spend behavior, including potential fraud, wasteful and unnecessary spend, and unauthorized personal usage. Establishing clear procurement and payment policies and restrictions has never been more important, and implementing a continuous monitoring system can ensure better chances for credit card and travel spend compliance.

SET CONCRETE PARAMETERS

Most company-issued credit cards allow employees to purchase goods and services for their organization with ease. To help control rogue spending, companies will instill controls such as single purchase limits, workflow approval processes, receipt requirements, and supplemental rules to policies outlining what types of items should/should not be purchased on a company card. Such controls may reduce non-compliant spend, and while they are very necessary, they do not completely mitigate the overall risks associated with card spend.

There are two types of controls: preventive and detective. Preventive controls happen before the spending, while detective controls happen "after the fact."

OTHER PREVENTIVE CONTROLS FOR INAPPROPRIATE SPEND

Some companies will restrict card purchases at a **Merchant Category Code (MCC)** level, such as precluding card purchases at department and other retail stores, liquor stores, adult venues, and other merchants where business-related spending should never occur. Although effective, problems can arise with this restriction in a couple of ways. First, merchants self-identify their MCC, meaning a merchant can appear to be in a valid expense category, while still offering merchandise that is not allowed under company purchasing policies. Secondly, because categories are broad, the **MCC could restrict purchases from a valid merchant**— even one with whom the company has negotiated significant corporate discounts.

Example: One of our customers allows purchases from retailers to allow employees to buy steel-toed work shoes (considered business appropriate spend), even though allowing for retail purchases creates the potential for other non-compliant retail purchases. Another customer established a long list of MCC exclusions in an effort to prevent non-compliant purchases from occurring; however, the MCC

exclusions proved so restrictive that employees became frustrated, stopped using their cards, and subsequently, there was a negative impact on their annual card rebates.

We may think every organization should restrict certain MCC codes based on their policies and business requirements, but we use these common MCC pitfalls as an example to demonstrate our point; you can set up all the preventive controls you want in an effort to prevent "bad" things from happening. However, with this approach, **controls can become too restrictive and get in the way of emergency or unexpected business purchases**. Rules are necessary and every company needs them, but are they really enough?

Another client of ours decided to have very few, if any, restrictions on the allowable MCC's their employees could use on their company-issued card(s). Their mentality instilled much trust in their employees to make good business decisions, allowing for greater flexibility while they were out on the road. Alternatively, the client implemented back-end monitoring for non-compliant and wasteful spending, allowing for the **best of both worlds-flexibility and oversight**.

INSPECT WHAT YOU EXPECT

A best practice for all corporate card programs is to inspect what the company expects. Continuous monitoring of corporate card spend and any associated expense transactions is the best approach to ensuring corporate card purchasing and T&E expense policies are followed. When every transaction is monitored, out-of-compliance spending is easier to identify, allowing for managers, human resource professionals, and compliance departments to conduct investigations and take action as appropriate. **An effective monitoring and data analytics program can have an immediate impact on rogue spending by flagging potentially non-compliant transactions, duplicate expense entries, and personal spend prior to expense reports being submitted.** Detection can occur either pre-or-post-payment; therefore, proactive/more timely communication or questions regarding suspicious transactions can be asked before reimbursement is made to the employee or prior to a payment being made to the credit card company.

One of the most beneficial aspects of implementing continuous monitoring with data analytics is the deterrent impact for future non-compliant spend. Not only does the awareness that someone is looking more closely at their transactions **make employees less likely to violate company policy,** seeing their peers being disciplined, or even terminated, after an investigation can have a huge impact on future spend behavior. If management is willing to act on the results and set a tone of "violations will not be tolerated", this can change a "culture of entitlement" to a "culture of compliance."

There are many questionable venues that should never be visited on the company dime, such as casinos and gentlemen's clubs. Our customers have also detected employees expensing online psychics, pet boarding, online dating services, frequent liquor store purchases, beer and cigarettes for breakfast, funerals, family vacations, and wedding receptions, to name a few. There are instances when employees will unwittingly use an incorrect card for personal expenses; but more often than not, the wrong card is used deliberately. Research has continuously shown that **people behave differently when they know they are being watched**. This "Hawthorn Effect" has resulted in up to **70% reduction** in out-of-policy transactions for Oversight customers who continuously monitor and analyze expense transactions.

A final benefit to using detective controls to monitor post-payment credit card and expense transactions is that **it allows companies to analyze overall spending patterns and behaviors**. As a result, **purchasing and travel spend policies can quickly be updated** to address new/now acceptable purchases, non-acceptable purchases, and convert any gray verbiage within a policy to something more black-and-white. For example, we had a client who at one-time embraced a "no in-room movie" policy during hotel stays. After they began analyzing their employee's spending patterns within Oversight, it became clear that travelers who watched in-room movies spent less during their hotel stays than those who did not. This led to a minor policy change, happier travelers, and a reduction in expenses.

BEST OF BOTH WORLDS

There is no reason for today's companies to forego the benefits of the distributed buying model, nor is there a reason to accept any offsetting losses created by unchecked misuse. The key is to understand the limitations of manual spend audit practices, and to take advantage of **continuous monitoring technology that can incorporate a 100% review of every corporate card and expense transaction.** The automated analysis of all transactions requires much less effort than selecting a sample to manually review. Oversight's data analytics narrow the field of vision to a list of spend exceptions, prioritized by risk and confidence levels. Our customers have reduced their spend monitoring efforts by up to 60% as compared to previous efforts where they sampled as few as 2% of all transactions.

One of the best approaches to managing corporate card spending and compliance is to find a way to balance preventive and detective controls. Policies, approval requirements, purchasing limits, and other preventive system controls will always be necessary for businesses. However, detective controls, or monitoring after the fact, can identify non-compliant spending that can fall through the cracks. With the combined power of preventive and detective controls, organizations can effectively and efficiently mitigate spend risks associated with company-issued credit card spend and travel expenses.

ABOUT OVERSIGHT

Oversight's AI audit and risk management platform digitally transforms how organizations monitor, analyze and mitigate their enterprise spend risk – across travel & expense, payables, and general ledger entries. Working across these disparate financial data sources, Oversight leverages patented and proven analytical techniques to automatically uncover fraud, misuse, and errors, as well as hidden risks and patterns that would lead to greater financial loss if left undetected. By identifying process breakdowns and making corrections early, Oversight helps create a culture of compliance that reduces out-of-policy spending by 70% while maximizing audit efficiency and eliminating cash leakage.

To request a demo of Oversight, please visit:
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