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Employee expense report theft: What commercial crime policyholders and brokers should know

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With the current stagnant macroeconomic conditions in the US, including rising interest rates and lingering inflation, many people are facing tighter financial situations and reduced spending power. Consequently, some individuals are resorting to desperate measures, and employee theft, particularly through fraudulent expense report submissions, is on the rise.

Per the Association of Certified Fraud Examiners' 'Occupational Fraud 2022: A Report to the Nations', among the three primary categories of occupational fraud, asset misappropriation (employee stealing or misusing employer resources) is the most common, accounting for 86% of cases. With incidences of expense report theft growing, it's more important than ever for organizations to learn to recognize the signs that misappropriation may be occurring. Here are some key indicators to watch for and best practices for risk mitigation.

Know your employees and segregate their duties

As underwriters, one of the key factors we closely scrutinize is whether a company has implemented segregation of duties in its financial and accounting operations. This is particularly important for tasks like bank reconciliation, deposits, check signing, and payroll. Generally, the more layers of approval a company has within its finance and accounting departments, the better the chances of detecting unusual activity. Additionally, as permitted by applicable law, companies should perform

comprehensive pre-employment screening, which often includes criminal, credit and drug history checks, is essential to ensure that all approvers have undergone thorough vetting.

Implement a multi-layered approvals process

To underscore the importance of multiple approvers, consider situations where a company pays employee credit card expenses in advance and waits for expense reports. In such cases, there may be a less rigorous review of credit card statements. This could result in the misallocation of personal expenses to seemingly appropriate categories, thereby masking the employee's unethical use of their company credit card.

Companies with a single approver, where one employee can approve an entire transaction, are susceptible to unnoticed expense theft if the approver consistently makes incorrect assumptions or lacks diligence. Special attention should also be paid to approval processes for executives who may not have an approver above them. Finally, as permitted by applicable law, companies should perform background checks of employees upon promotion to positions with approval authority.

Set limits and policies that prevent over-spending

A threshold policy, where spending over a certain amount requires a secondary approver, can be effective. Alternatively, purchases above a specified limit might need pre-approval.

Equally important is setting credit card limits based on employee roles. For example, procurement staff may require higher limits due to their frequent large-scale purchases compared to employees in other roles.

Evaluate vendor contracts and establish protocols with vendors

Setting parameters with vendors can help to ensure they are not unilaterally accepting orders over a certain amount and that no vendor collusion is taking place. Vendors should only accept orders from authorized personnel in procurement roles, as even these employees can be involved in schemes with vendors.

Go right to the source

In today's digital age, digital manipulation is increasingly prevalent. Employees may try to manipulate credit card statements, altering personal expenditures to appear as legitimate business expenses before submission. Companies should always review credit card statements directly from the credit card company to ensure that actual charges are reviewed.

Watch for changes in behavior or spending

If you notice an employee undergoing a sudden and conspicuous lifestyle change, marked by extravagant possessions and increased travel, it may warrant a closer examination of their expense reports.

If we're seeing this trend globally, it might just be happening in your organization

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