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ACCOUNTS PAYABLE™

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April 1, 2020

Expense fraud trends: What A/P must be wary of now

■ *Survey reveals employee methods and motives*

Could fraudulent employee expenses be slipping by A/P's eye?

It's possible, as modern fraudsters are using more sophisticated tactics and going highly undetected, according to Chrome River's 2019 Corporate Expense Fraud Survey.

And some of fraudsters' most popular methods and the justifications behind them may surprise you.

It's time to go behind the scenes and see – straight from the employees committing the crimes themselves – what expense fraud looks like in today's business world.

Here are the report's key points and everything A/P needs to know to spot and stop fraud.

The who

What does the typical fraudster at any company look like? Survey says:

• **Age and gender:** Males ages 18-34 were the most likely to commit expense fraud.

• **Salary:** When looking at household income, those bringing in less than $50K per year were the biggest fraud group.

• **Method of submission:** Employees who submit expenses to A/P

Major worker classification changes circulating

■ *Bill would amend 'who shall be considered an employee'*

Stay sharp, A/P! A new bill could change who can be classified and paid as an independent contractor (IC).

The Protecting the Right to Organize (PRO) Act, which recently passed in the House, would revise the definition of employee.

The language is similar to California's ABC test, where a worker is an employee <u>unless</u> the company meets three criteria that prove otherwise.

If the bill passes, some workers who were previously regarded as ICs, like truck drivers, could fall into the employee category. And overall, it would make classifying workers as ICs more challenging for companies.

Prepared for anything

To stay compliant no matter what may come, A/P should verify that it's consistently securing documentation to support bona-fide IC relationships.

And as the PRO Act makes its way to the Senate, start to think about whether it could change the classification of any workers you pay.

We'll keep you posted on it.

***Info:** bit.ly/proact513*

Thwarting Expense Fraud

Fraud …

(continued from Page 1)

manually (e.g., paper receipts and spreadsheet expense reports) were more likely to commit fraud.

You know employees of all kinds are out there lining their pockets, but it can be helpful to keep this profile in mind when conducting audits.

Including expense reports from employees with some or all of these characteristics could increase your odds of catching fraud.

The how

Now you know who's most likely to dip into your company's coffers. How are they carrying it out?

In a nutshell, they're adding small expenses time and time again:

- **Amount:** Most fraudulent expenses (68%) were under $50.
- **Frequency:** Over two years, 63% of employees submitted between two and 10 fake expenses.
- **Type:** The top expense types were extra mileage (39%), personal purchases recorded as biz expenses (34%) and inflated tips (28%).

You can probably decipher why sneaky employees tend to opt for these methods. They're easier to carry out, and they don't raise suspicion in A/P the way larger dollar amounts would, Chrome River points out.

In turn, these employees see no reason to stop. A whopping 85% say they've never been caught and 47% are *still* falsifying expenses.

So, watch lower-value expenses, especially those for mileage and tips. If you can catch 'em once, you could prevent repeat fraudulent occurrences in the future.

The why

What's often most tricky to see is why employees steal, since everyone has a unique thought process. But there are some common threads.

Right now, most fraudsters are looking to even the score.

The top reason cited for committing expense fraud was "to make up for other small expenses I couldn't submit for reimbursement" (45% for both men and women). Many also feel they deserve it for all the travel/late nights (13% for men, 10% for women).

Of course, there's no excuse for fraud. But companies may want to give their T&E policy a once-over. See if you need to adjust what you reimburse or what is expected (e.g., red eye flights). That way, employees don't feel like they're being gypped and take matters into their own hands.

Also, make sure your corporate culture advocates that any amount of fraud – no matter how small – has serious consequences.

Info: info.chromeriver.com/2019-business-travel-expense-fraud-survey

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*S*harpen your *judgment*

This feature provides a framework for decision making that helps keep you and your company out of trouble. It describes a recent legal conflict and lets you judge the outcome.

■ **Can A/P get a sales tax refund on its software purchase?**

A/P Manager Jenn Smith sighed and placed down an open envelope.

"What?" A/P Clerk Faye Jones asked, joining her.

"The Commissioner of Revenue denied our request for a sales tax refund on our software," Jenn said.

Faye tilted her head. "Can you refresh my memory on this one?"

Too late to go back?

"We recently bought that new computer software," Jenn began. "It was installed on servers here, but employees can access it from work locations in state and out of state."

"Right," Faye answered. "And the vendor collected sales tax on it."

Jenn nodded. "Later, we explained the software was used in other states. So, the vendor filed an application for us, requesting abatement and sales tax refunds based on our usage data and apportionment percentages."

"And the Commissioner denied the refund?" Faye asked.

"Yeah. It said apportionment's only allowed if we provide the vendor with an exemption certificate by the time the transaction's reported for tax purposes," Jenn explained.

"That's a bummer," Faye said.

"What about filing an appeal?" Jenn said. "Maybe I'm grasping at straws here, but I think we deserve this refund."

Faye frowned. "Do you think we can make the state see it that way?"

Jenn's company challenged the Commissioner's ruling, saying the sales tax should still be apportioned. Did the company convince the state?

■ *Make your decision, then please turn to Page 6 for the court's ruling.*

Networking with Other A/P Pros

Our subscribers come from a broad range of companies, both large and small. In this regular section, three of them share success stories you can adapt to your own unique situation.

1 Revised our approach to early pay discounts

Vendors aren't as fond of early payment discounts if they don't work in their favor.

In A/P, we've learned that most of our vendors are generally looking to either 1) get paid immediately with the discount, or 2) get paid later down the line with no discount.

Vendors are also hoping for some level of consistency, so they know what to expect.

And that was a problem for our company. Because purchasers were getting invoices and paperwork to A/P on an irregular basis, we were sending payments irregularly, too.

A little reassurance

To keep our business relationships from turning south, we initiated some productive talks on two key fronts.

First, we reached out to vendors. We explained that we wanted to pay them more consistently and would work with their purchasing contact to make it happen.

That reassured them that we were on their side and bought us a little time to sort things out with our own employees.

Next, we went directly to each purchasing contact and said, "Your vendor is making some noise."

We asked questions like, "What can we do to get invoices approved quicker?" and "What data can we give you to speed up the process?"

These positive talks helped us rework some bottlenecks and spurred purchasing contacts to step up.

Now A/P can pay vendors <u>and</u> score discounts more consistently.

(Ryan McClintock, A/P Manager, T-Mobile, as presented at the A/P P2P Conference & Expo, Orlando, FL)

IMPROVING YOUR OWN A/P PROCESS

2 Employees don't forget our deadlines anymore

Getting items approved by their deadlines was a big hassle for our department.

Some employees were on top of approvals, but others consistently forgot. Frankly, it just wasn't a high priority for them.

We tried simplifying things for employees by automating the process.

But even that didn't help everyone remember. Some people still missed due dates, which meant a lot of extra effort on our part.

We didn't want to feel like we were scrambling anymore.

3 strikes and you're out

So, we decided to get more serious and let employees know there'd be real repercussions.

With managers' support, our company put a progressive discipline policy in place for employees who consistently missed our deadlines.

The first time, offenders would get a verbal warning.

If they missed a second deadline, they'd receive a written warning.

If it happened a third time, the offender would be subject to disciplinary action.

Fortunately, we've rarely had to take it that far.

Just the act of implementing this policy showed everyone that we mean business, and it's helped us cut down on last-minute approvals.

(Sandy Dayton, Payroll Director, Bristol Hospice LLC, Salt Lake City)

3 How we expand staff's skills and perspectives

A/P staffers are tasked with a very specific set of responsibilities. They process invoices, manage vendor data, reimburse expenses ...

And our staffers do those things extremely well.

Still, we knew it wasn't enough for A/P – or any department, really – to only master their own function within the company.

It's essential for everyone to understand how their role fits into the bigger picture and to see how all the moving parts work together.

Unique initiatives

That's why we decided to create some new internal programs.

First: We develop "workshops" for staffers to learn about other roles within the company. For example, our CFO Workshop featured a dialogue with the CFO to discuss our company's vision, where we're going, etc.

Second: We have "Chair Day," which involves sitting down with someone who has a totally different role. This helps staffers connect with and feel a part of something bigger.

Third: We provide opportunities for staffers to learn more about other parts of their process (e.g., Procurement).

Some staffers can envision moving into other positions in the future, so this gives them a chance to feel it out. It also helps them find ways to collaborate more for mutual success.

(Jackie Couch, Global Disbursement Manager, FedEx Services, Memphis, TN)

T&E Spotlight

T&E comprises 8%-12% of the average organization's total budget – and it's also one of the areas where A/P can make the most impact. This regular feature showcases the latest ways you can save time and money on processing travelers' expense reports and reimbursements.

SHARING ECONOMY

What spend category are employees expensing the most?

Hint: For the first time since 2015, it's not meal expenses.

In 2019, ride-hailing services were the most-expensed business spending category, making up 17.5% of all transactions in Certify's SpendSmart Year in Review Report.

What's more, sharing economy giant Uber was the most-expensed vendor, accounting for 12.6% of all expenses. Lyft made up another 3.7% of expenses.

With ride-sharing services being expensed so often, A/P should look to optimize their usage.

A policy check

Since ride-hailing services are more cost-effective than traditional taxis, you want to encourage employees to take advantage of cost savings.

First, make sure your T&E policy has updated language about ground transportation. If there are specific references to taxis or cabs, you may want to remove them.

Also, add the instructions on how to use ride-hailing services and address how the T&E process will work, since things are done through phone apps.

Just for biz travel

Speaking of phone apps ...

Your company may also want to look into the corporate-specific offerings from ride-hailing services.

Uber for Business (*uber.com/us/en/business*) lets you set travel permissions, access trip memos and apply expense codes to make sure employees stay within policy. It can also simplify A/P's job by letting employees charge your company's account directly from their app and by paying per trip or per month with one payment method.

Another example is **Lyft Business** (*lyftbusiness.com*), a solution that promises to increase employee satisfaction and company savings.

Also, the regular Lyft app has an option to create "business profiles." Whenever employees need to catch a work-related ride, they can switch from their personal profiles to their business profiles, which can send ride receipts straight to business emails.

Info: bit.ly/certify513

A close eye on card purchases

How do you decide which p-card transactions are audited?

We audit a certain percentage of transactions	29%
Our software sets criteria	23%
We audit a certain percentage of cards	18%
We use multiple criteria	18%
We don't perform audits	12%
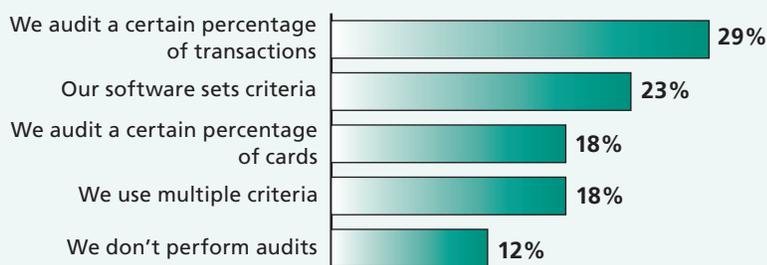
Source: Peeriosity, *peeriosity.com*

Even if your company only audits a certain amount of purchasing cards (p-cards) or transactions, it's beneficial to promote a corporate culture where employees always feel like all their card charges are being closely and carefully monitored. That way, they're more likely to spend compliantly.

Performance Boosters

*T*o help our readers improve payables operations, KAP *selects the best ideas from a variety of sources and presents them in a quick-read format.*

IRS B Notices: Remember to keep a documentation trail

Spring B Notice season is here!

And to stay compliant with IRS, A/P must have a process in place to track which payees it gets notices for year-to-year.

Reason: You know if A/P receives a second or subsequent B Notice for the same vendor within three years, the process is a little different.

But IRS won't directly tell you if it's your first or second notice for a vendor. The Service says payers are responsible for tracking the notices they get – so make sure you do!

See more on B Notices in Pub 1281, at *irs.gov/pub/irs-pdf/p1281.pdf*

Want your words to be more memorable? Use the rule of 3

Whether you're training on policy or leading a meeting, it's essential that what you say sticks with others.

How can you make sure you don't say too much or too little?

Stick to the number three, because people remember info best in doses of three, according to psychology.

So, center your message around three main steps, three big benefits, three key numbers, etc. People will be more likely to lock in the information.

Info: bit.ly/three513

The question A/P should ask to yield higher productivity

With so many tasks on your plate, you have to decide what takes priority.

We know one A/P expert who said the best question she ever asked to increase efficiency was, "Is there anything I can <u>stop</u> doing?"

Think about what task gets pushed to the bottom of the list because it's not vital. Then ask yourself if that task is totally necessary to do. Do you really have to scan that paperwork?

Do you need to run that report?

After, talk to people involved in that task to make sure you're all on the same page about how (or if) it will be handled going forward.

Info: As presented at the A/P P2P Conference & Expo, Orlando, FL

How to approach higher-ups with a difficult problem

Uh oh. A/P's in the midst of a tricky issue. Someone has to go to the boss – and that someone is you.

Here's advice on how to handle it skillfully from The Muse:

- **Get the facts.** Your boss will likely have questions about what occurred, so gather all the relevant info first.
- **Opt for face to face.** Though email is easier, serious issues should be spelled out in person, if possible.
- **Show the fallout.** Be ready to explain why this issue is worthy of your boss's time and attention.
- **Document.** If your boss helps you find a solution, take notes so that you're equipped for future issues.

Info: bit.ly/problem513

SOFTWARE SKILL BOOSTER

Control which computer programs run on startup

There may be certain programs that launch as soon as you turn on your computer, which can slow it down.

To modify what runs on startup:

1. Press **Ctrl + Alt + Esc** to open the Task Manager. Click *More details*.
2. Click the *Startup* tab to see a list of the programs that run on startup.
3. From there, you can select any program and *Disable* it.

Info: bit.ly/startup513

If you have a story idea or comment to share, contact the editor at aevans@cfodailynews.com

■ **ACH payments spike to new high, Nacha finds**

Need to convince your company that Automated Clearinghouse (ACH) payments are the wave of the future?

The annual growth rate for ACH payments hit a 12-year high in 2019, reveals new data from Nacha.

From 2018, the total volume of ACH payments increased 7.7%, plus:

- B2B payments jumped up 12%
- Internet payments rose 13%, and
- Same Day ACH surged 41%.

See Nacha's news release below.

Info: bit.ly/nacha513

■ **IRS announces interest rates for second quarter of 2020**

It's that time again! The Service has published your next round of interest rates for tax payments.

And the rates aren't changing. As of April 1, 2020, the rates remain:

- 4% for corporate overpayments
- 2.5% for corporate overpayments exceeding $10,000
- 5% for underpayments, and
- 7% for large corporate underpayments.

Info: Revenue Ruling 2020-7, *at irs.gov/pub/irs-drop/rr-20-07.pdf*

■ **Is broken communication hurting your A/P process?**

To stay on the same page with other employees involved in A/P, less could be more.

About 70% of employees admit they feel overwhelmed because of broken communication methods and fragmented information, found a recent survey from Dynamic Signal.

Even though you can't control companywide communication, you can help employees you work with closely by outlining and sticking to one clear communication process (like one specific email address or phone number).

Info: bit.ly/communicate513

Effective Policies & Procedures

4 ways to ace a new staffer's first day (and keep them long term)

■ *Some people immediately have 1 foot out the door ...*

It's great when you find a perfect fit for your A/P department – a staffer who's hardworking, detail-oriented, collaborative ...

But it's not so great when you find out a staffer like that is soon leaving.

Fact is, about 20% of staff turnover occurs in the first 45 days on the job, says the Society for Human Resources.

That makes a good first impression essential to keeping newer staffers at your company, helping A/P thrive.

A warm welcome

Here's how to give new staffers a great first day, courtesy of speaker and entrepreneur Amelia Friedman:

1. Minimize mundane activities. If you want new hires to feel motivated after their first day, it shouldn't be spent filling out forms or waiting for IT to set up their systems.

Have their tech and logins ready to go. And if possible, give them a chance to look over forms, handbooks and other materials before they come in. Then there's more time to connect with co-workers and see your A/P operations.

2. Spruce up their space. New hires will expect the basics on their desk (a phone, computer, notepads, pens). But adding a little extra (balloons, a coffee mug, a plant, welcome notes) shows you're really thrilled to have them.

Plus, a little decoration can serve as an invite for other employees to swing by and introduce themselves.

3. Get social. Because co-worker relationships can impact retention, help new hires bond right away.

You can schedule time for them to have one-on-one coffee breaks or a group lunch. Forgo an agenda and let these conversations simply be about getting to know the people and the company. Later, when it's time to get to work, new hires will know they already have some trusted allies.

4. End on a good note. Friedman likes to send new hires home with a small gift or note reaffirming how glad her company is to have them.

The goal, she says, is to get them thinking they made a good choice in working here and to make them excited for what's to come.

Info: bit.ly/hires513

Sharpen your judgment
THE DECISION

(See case on Page 2)

Yes, Jenn's company was able to convince the Appellate Tax Board that it deserved a sales tax refund.

The Commissioner held that if A/P wanted to apportion sales tax on the software, an exemption certificate had to be given to the vendor earlier. And initially, the Board agreed.

But after reconsideration, it ruled the vendor could seek apportionment by "timely filing an abatement application." The Board referred to a provision saying if a purchaser doesn't provide an exemption certificate claiming multiple points of use, the seller can work with them to generate the right apportionment.

Therefore, A/P could get its refund.

Analysis: It's not too late!

This case offers hope for A/P: Sometimes, even if certain steps or details are overlooked earlier, you and a vendor can still work together to reduce sales tax liability.

Based on Oracle USA Inc., Oracle America Inc., Microsoft Licensing GP v. Commissioner of Revenue. *This case was fictionalized for dramatic effect.*

Sharing documents with others? Here's how to make it simpler

■ *3 ways to work well with multiple collaborators*

When you're the only one working in a spreadsheet or file, it's easy to keep things straight and orderly.

The same can't be said when multiple people are editing and sharing a document.

You're left trying to connect the dots ... Who changed that section? Did someone rename the file? Is this the most recent version?

Cue a headache for A/P.

Time to streamline

Here are three tips to make shared documents more manageable:

1. Track all changes. When a file's passed around, you need to monitor who changed what – and when. So, be sure your staff is recording their changes whenever possible.

Collaborators can track, highlight and accept/reject changes. They can also add comments explaining why they made certain changes to provide further clarity.

If you or other staffers don't have much experience with tracking features, review guidance on tracking in Microsoft Word (*bit.ly/mword513*) and Excel (*bit.ly/mexcel513*).

2. Check "Version History." Did someone forget to track their changes or note what they changed in a file?

You can go to *File > Info > Version History* to get a glimpse. Click *View and restore previous versions*, and a sidebar will pop up showing you when the document was modified (the date and time) and by whom (the user).

3. Make it a read-only document when necessary. Let's say you're sharing a file that, at this point, no one else should be revising.

Prevent others from making changes by going to *Save As > Tools > General Options...* and checking the *Read-only recommended* box. Then click *OK* and *Save*.

Corporate cards zero in on individual industries

■ *A different mindset for card product developers*

When making any decision, be it a product purchase or a payment method, A/P has to make sure it aligns with the company's needs and goals.

That's why software often targets specific industries like manufacturing, restaurants, retail or health care.

Today, corporate card developers are taking a similar approach. They're seeing how they can take advantage of the unique challenges in specific industries, according to PYMNTS.

And it's safe to say that companies are eager to explore them and relieve some of their biggest pain points.

For example, Christine Altieri of event company AE Events explained how cards can enhance her industry, even on a broad scale. With event planning, unexpected expenses happen often, making cards a great fit for expense management.

Watch this trend

If you work at a company with any industry-specific nuances, consider:

Could A/P be getting more out of its card program? Are there other "use cases" that could optimize spend? What are others in your industry doing to maximize their card programs?

And going forward, you'll want to keep an eye on if and how corporate card developers look to solve your industry's top challenges.

Info: bit.ly/cards513
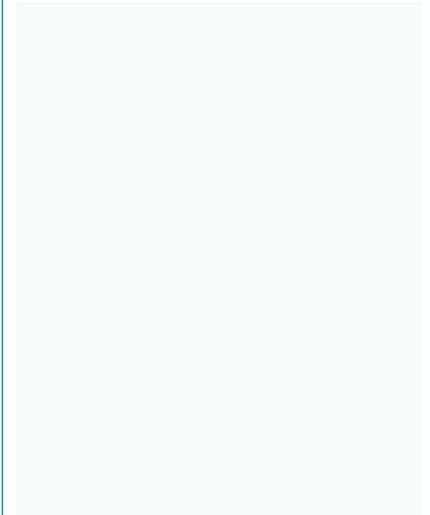
THE LIGHTER SIDE

■ **Bringing 'April Fools!' to the A/P department**

If your workplace has felt a little mundane and quiet lately, there's nothing like some April Fools' Day fun to change the pace.

Check out a few harmless yet hilarious office pranks you could try this year:

• Duct-tape a small airhorn behind a door in your office. Anyone who opens it will be greeted by a high-pitched *HONK*!

• Replace a co-worker's cup full of pens with a cup full of colorful crayons. Nothing says "professional" like bright orange and green meeting notes.

• When all else fails, an innocent, old-fashioned prank phone call will do the trick to get the whole office cackling.

Sales & Use Tax Highlights that A/P Needs to Know

Taking the guesswork out of state tax compliance

Here's KAP's *roundup of key state tax changes. Developments in other states often indicate trends to watch. Your state may be next.*

Ever since *South Dakota v. Wayfair* made online sales more complicated, states have been busy creating laws. Here are a few with news.

ILLINOIS – Look out, A/P. The Prairie State is highly focused on economic nexus compliance.

Illinois added a brand-new resource page all about remote sellers and marketplace facilitators with notable definitions, requirements and more.

It also recently issued a Compliance Alert to explain the tax responsibilities of marketplace sellers making sales that are subject to Retailers' Occupation Tax (ROT).

You can check out the resource page (*bit.ly/il-513-page*) and the alert (*bit.ly/il-513-alert*) for full details.

NORTH CAROLINA – Does your company buy from online auctioneers?

A new notice from the Department of Revenue says auctioneers that qualify as marketplace facilitators and meet either of its thresholds must collect sales tax from you.

This rule became effective on Feb. 1, 2020 and only applies to sales "occurring on or after" that day.

Info: ncdor.gov/documents/ important-notice-auctioneers

MULTIPLE STATES – More proposed economic nexus regs could affect your payments soon.

Three states have proposed bills to enact marketplace facilitator laws:

- **Tennessee** (*bit.ly/tn-513*)
- **Mississippi** (*bit.ly/ms-513*), and
- **Kansas** (*bit.ly/ks-513*).

Note: Kansas has a second proposed bill (*bit.ly/ks2-513*) that would add a new threshold, so only remote sellers that make $100,000 in Kansas sales per year would have to collect sales tax. (Currently, all remote sellers are required to collect sales tax.)

We'll let you know if and when any of these bills come to pass.

SERVICES

To pay tax, or not to pay tax. That is the question, especially with services! Check out updates from two states.

TEXAS – There are big changes to paying for medical billing services.

As of April 1, 2020, medical billing services are taxable as insurance services. (Note: The original effective date was Jan. 1, 2020, but it was pushed back.)

The Texas Comptroller says medical billing services include activities like:

- assigning codes for preparing claims
- verifying insurance eligibility
- preparing claim forms for filing, and
- reviewing/appealing denied claims.

See more under *Policy Change to Medical Billing Services* at the link.

Info: bit.ly/tx-513

NEW YORK – A/P pros getting invoices for security services will want to hear about this recent case.

A company was constructing a new building (i.e., a capital improvement), and in conjunction, purchased security services for the project.

New York taxes security services but exempts capital improvement services. Since the security services were a part of capital improvement, could they be exempt in this case?

The New York Division of Tax Appeals said no. It clarified that security services "of every nature" are taxable, even when associated with an exempt capital improvement project.

Info: bit.ly/ny-513

USE TAX

If vendors don't collect sales tax, you're on the hook for use tax. One state has new insight for A/P.

COLORADO – Here's proof of how the "true essence" of a sale can determine its taxability.

A cinema company bought license agreements (and received movies as digital files on portable hard drives) from film distributors. The company was levied for use tax.

In court, the company argued that the rights to show the film (which are intangible and nontaxable) were more valuable than the data files (which are tangible and taxable). So, it claimed it shouldn't have to pay use tax.

But the state didn't agree. It said the true object of the arrangement was getting the tangible data files, not the intangible rights. Therefore, the company had to pay use tax.

Info: bit.ly/co-513