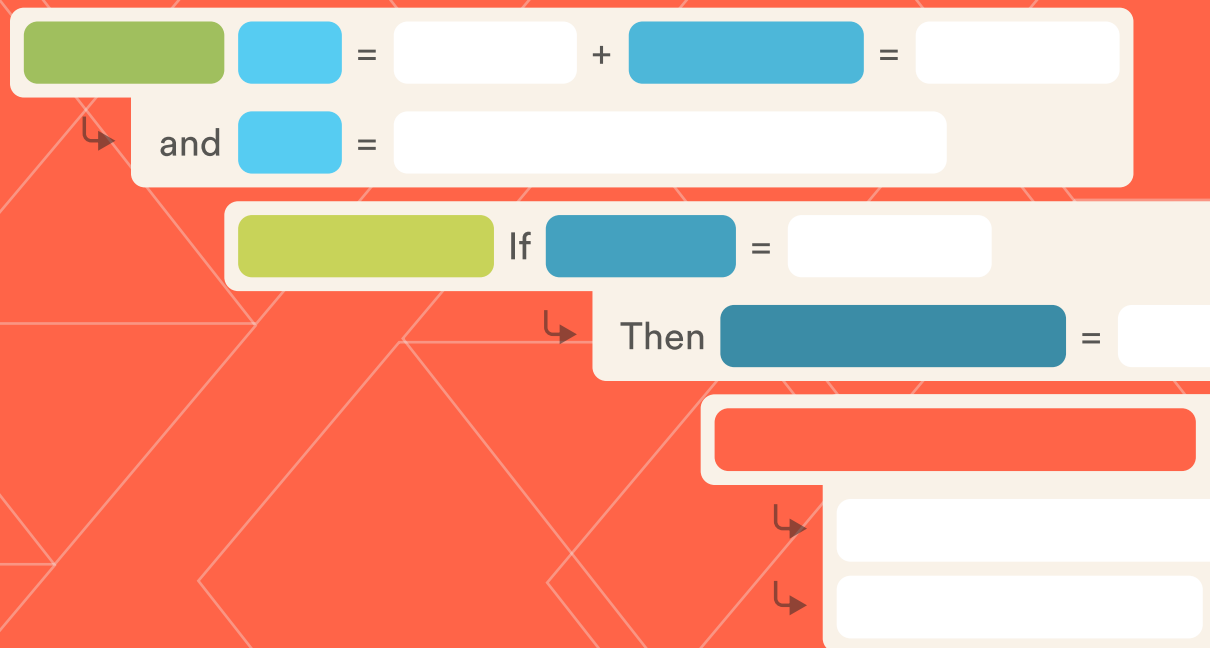


Modern Expense Policies.

Shifting from Traditional to Rule-based Policies.



Expense policies support and facilitate the safe and productive use of company capital. They establish guidelines around how much money employees can spend, the permissible purposes of spend, and who must approve purchases. They also describe the operational processes that should be followed by those spending company budget.

There are two approaches to expense policies.



Traditional (language-based) expense policy:

A legacy of a paper-based world, these detailed documents spell out how and when employees are allowed to spend company funds. They can cover a wide range of circumstances, and most expense management vendors still offer a guide or template for such expense policies. Their words must be precise, explicit, and easily digested. Communication is paramount for a language-based expense policy because employee compliance depends on remembering and understanding the guidance.



Rule-based system:

This is a software concept that refers to a system that operates without direct human oversight, and applies human-crafted rules to manipulate data and drive processes. For the purposes of this article, we're specifically examining systems that manage company spend. A rule-based system makes its configured rules mandatory for participation with the system.

About Airbase:

Airbase is the leading spend management platform for small and midsize companies. It combines comprehensive accounts payable, an advanced corporate card program, and employee expense reimbursements into one system. Airbase automates accounting and operational workflows for a faster close, real-time reporting, and a consistent platform experience for all non-payroll spend.

Introduction.

The good news is that modern expense and spend management tools allow companies to largely replace language-dependent expense policies (i.e., documents) with rule-based systems. However, since many companies use various software applications for managing different aspects of their company spend, rules must be specified for each system. For example, rules for corporate card spend and reimbursements would be devised for two different systems. Therefore, yet one more benefit of a consolidated, comprehensive spend management platform is that rules can be determined once and applied consistently across all areas of spending.

Once the rules are set, these systems automate a significant amount of the spending process and apply to both procurement, for which spending must be pre-approved, and employee reimbursements, for which approvals for spending come after the fact. A rule-driven approach shores up two major deficiencies of traditional expense policies: the need for oversight, and the risk of miscommunication. Here we provide some guidance on how to build rule-based policies and compliance into how employees spend company capital.

Oversight.

Rule-based policies shift the emphasis from human oversight to a reliance on the system to handle compliance, routing, reminding, and documenting. This shift creates greater transparency for all involved. It provides visibility into whether an expense is allowable, shows where an expense is in the process, identifies who must approve and when, and indicates whether payment has been made.

Rule-based systems eliminate confusion and help to promote a healthy spend culture. It both enforces compliance, and generates evidence of compliance with an automated audit trail for future reference.

The limitations of language.

Document-based policies rely heavily on language and interpretation, and they never fully escape the risk of miscommunication. Many guides for writing expense policies stress the importance of avoiding ambiguity, specifying exactly when and how expenditures should and should not be made, and spelling out the procedure and schedule for any reimbursement process.

A spend management system, though, will enforce your company's programmed rules whenever an employee goes to spend company funds, without relying on an individual's understanding of something they read back when HR asked them to sign an employee handbook.

Of course, a rule-driven system still provides an opportunity to communicate an overall spend philosophy. We encourage you to do this. A brief spend philosophy to inform employees about the objectives and standards for company spend can set expectations for budget accountability and around reimbursements. This can also be a part of communicating company preferences for the best payment methods for common expenses, which we'll touch on later.

How rules can eliminate expense reporting.

The shift from a document-based approach to a rule-driven one eliminates the need for expense reporting by employees. Reimbursement requests made through a rule-based system replace the function of traditional expense reports.

This rule-driven medium still documents company expenses and ensures that employees comply with company policy, but it does so while reducing both the amount of employee time required for the process, and the likelihood of non-compliance; rules can be established to prevent reimbursement requests that don't adhere to policy. A rule-based approach allows employees to be reimbursed once the set conditions, typically receipt and approval compliance, have been met. This means that accounting teams can be confident that rules have been complied with, and that employees can rest assured that reimbursement payments flow directly into their bank accounts without delays and uncertainty.

Rule-driven policies eliminate other requirements.

- **Multiple expense policies.** Written policies must account for every scenario an employee may confront. This is often accomplished by creating multiple policies (e.g., one for T&E, and another for routine office expenses). A system built on programmable rules makes no distinction between these broad classifications, providing a unified platform for your company.
- **Detailed explanations for reimbursement procedures.** Whether optimized for company cash flow or employee satisfaction, a written expense policy needs to meticulously lay out how an employee gets reimbursed, what and how circumstances change those procedures, which approvers are needed at which steps to keep the process moving, and what recourse an employee may have if things don't exactly go to plan. By contrast, a rule-driven system integrates rules into an employee's request for reimbursement. It streamlines approval processes, and deposits reimbursements automatically into employee bank accounts.
- **Evidence of compliance for audits.** A system built from a rule-based approach ensures that employees cannot act outside the bounds of those rules. Moreover, it documents every step of the process for employee expenses: requests, approvals, and transaction details. There's no need to reconstruct events and search for evidence of compliance.
- **Chasing documentation.** Many AP teams squander their valuable time tracking down documentation from employees. In a rule-driven approach, the system reminds employees of any missing receipts, or vendors of any missing W-9s. Additional controls can even lock future use of a card, or payment to a vendor, if these documents have not been submitted within a set period of time.

The compounding problem of communication.

Companies and the world in which they operate are constantly changing, so the need to update and adjust policies will always remain. Rule-driven systems are easier to edit and scale up compared to traditional expense policies. The communication pitfalls inherent to written policies are made exponentially worse the more employees a company has:

- Needing to distribute the textual policy to new hires.
- Needing to distribute a new version of the policy to all employees whenever there is an update.
- An increased chance of miscommunication, either around the policy or around tangential pieces of communication (e.g., prolonged back-and-forths on the status of reimbursements).
- An increased number of employees for whom compliance must be tracked.

Using the rules to course-correct budgets.

There are times when a company wishes to adjust spending outside of the normal planning processes. Rules allow for an effective and easy way to ratchet up spending to take advantage of market opportunities, or to scale back spending. Adjusting spend limits can serve as a convenient valve for encouraging different spending behavior from employees.

Spend culture.

A healthy spend culture promotes productivity. How employees feel about, what they expect, and how they approach the use of company capital can have profound ramifications for an organization. The increased visibility and accountability of spend that comes with a rule-driven expense policy can empower employees to comfortably make purchases when necessary, eliminating awkward conversations around what's reimbursable. It shifts the role of enforcer from the accounting team, who generally resent having to be the company's policing arm, to the system. Rule-driven expense systems also provide peace of mind, to both employees and managers, that spending complies with approved policies.



Traditional Expense Policies

Implications

- Lengthy reimbursement process
- Risk of noncompliance
- Significant focus on exact language use
- Risk of fraud

Best Practice Elements

- Company spend philosophy
- Employee expense reports
- Multiple policies for different circumstances
- Explanation for how to use
- Dissemination of policies to employees
- Dissemination of policy updates to employees
- Outlined compliance
- Explanation of ramifications for noncompliance
- Process for expense reporting
- Schedule for approvers/reviewers of spend
- Outlined reimbursement process
- Specified scope
- Detailed explanation of approval workflows
- Clarification on exceptions
- Guidelines for corporate card use



Rule-based (Spend Management) Policies

Implications

- Quick approvals
- Rapid reimbursement
- Automatic compliance
- Visibility into spend for all stakeholders
- Automatic notifications and red flags

Best Practice Elements

- Company spend philosophy
- Policy guidelines for different payment types
- Easily provision and deprovision employees, and define their roles with HR software integrations

Building your rules.

The building blocks of any rule-driven system are definitions. How you define the various participants, and what they can do within your system, is the place to start when constructing your rules.

1. Roles, responsibilities, and permissions.

Establish the roles within your system upon which you can construct rules, remaining mindful that every user on your spend management platform will be assigned one of these roles. They're defined by the permissions set for them — what they're allowed to do and see within your system. Note that *administrators* are vital to system continuity.

Even with the ability to sync employees from your HRIS system into your spend management system, you'll still need competent administrators to maintain appropriate roles and permissions for employees in your system when there are changes (e.g., promotions) or when new employees are hired.

Example roles:

- Administrator (often mandatory and given all permissions)
- Accounts payable
- Manager
- Employee

Example permissions:

- User provisioning (often solely for administrators)
- Editing rights
- Reviewing rights
- Approver status (this is particularly important for building your system)



Traditional Expense Policies

Rules

Approvers/authorities
Spend limits
Permissible expenses
Compliance workflows (explained in detail)
Vendor relationships



Rule-based (Spend Management) Policies

Rules

Roles, responsibilities, permissions
Spend limits
Permissible expenses
Mandatory fields
Compliance workflows specified
Vendor relationships (soft rules)

2. Approvers.

Build rules that define who approves card creation requests, virtual card expense requests, purchase order requests, and reimbursement requests. These are typically defined using some criteria that specify who a rule applies to, some operator (e.g., “is equal to”), and some specified value. For example, if you wanted to make sure that your VP Marketing was a mandatory approver for spend requests on virtual cards when someone in marketing asks to spend over \$5,000, on top of the marketing department’s standard spend request approver, your rule construction might look something like:

Conditions

- Requester Role is equal to Any
- Requester Department is equal to Marketing
- Payment Method is equal to Virtual Card
- Spend Request is greater than \$5,000

Approvers

- Approver Role is equal to Manager
- Approver Role is equal to VP

Example criteria:

- **Department.** Specific departments — build department-wide policies.
- **Category.** Rules can be built on the GL category provided for a transaction.
- **Requester/Approver.** Identifiers for actors in your rules, specific (individual names) or broad (roles/departments).
- **Service/Vendor.** The entity being paid in an expense.
- **Spend Requested.** The amount requested for an expense.
- **Payment Type.** The method for paying the expense.

Example values:

- Role
- Amount
- Vendor
- GL category
- Employee name
- Department name

Note that multiple approvers can be programmed into a single rule, and this is often useful. It might make sense to have a chain of approval (particularly for large expenses) or backup approvers (advanced approval systems allow for a request to be automatically routed to the approver in line if one is unavailable).

3. Spend limits.

Spend limits are integral to both written and rule-driven expense policies. They can be:

- Built as part of physical and virtual corporate cards.
- Assigned to an employee for the purpose of limiting how much they can request for a PO or a reimbursement.
- Designed for specific purposes, like certain events, per diems for those events, lodgings for those events, and even more granular expenses.
- Applied to departments or initiatives.
- Set to be in effect for a specific amount of time (e.g., per day, week, month, quarter or year).
- Edited by your system admins and accounting team.

4. Receipt compliance.

In a traditional expense policy, best practices for receipt compliance must be spelled out, and finance teams are generally expected to enforce that compliance. But you can build a number of rules into your spend management system to automate receipt compliance. Rules can be enforced by the system with either a warning or by blocking further action. For example, an employee that fails to upload a receipt may receive a warning that prompts the employee to proactively fix or add information.

Example rules for receipt compliance:

- Send email reminders to employees to attach receipts to the purchases.
- Automatically lock company cards that do not attach receipts within a given number of days after a transaction.
- Require uploading a receipt for all reimbursement requests over a set dollar amount.
- Require uploading a receipt for all reimbursement requests. Period.

5. W-9 compliance.

Set a rule to only release payment to a vendor after a W-9 has been received. Vendors are often more motivated to respond to the request for this paperwork if it is required for payment. Make life easier for your AP team when it's time to ship 1099s by getting W-9s on file early.

6. Soft rules.

Settings can be configured as guidance rather than as rigid rules to help employees make selections when they request spend or submit for reimbursement. These can be thought of as soft rules, suggestions, not obligatory.

Example programmable soft rules made to apply to specific employees/departments/initiatives:

- Relevant fields based on user or department for GL categories. This helps employees select the right category.
- Relevant fields based on user or department for transaction tags.
- Relevant fields based on user or department for vendors.

Virtual cards.

Virtual cards are a unique point of consideration. They can be used similarly to corporate cards (they're particularly useful for recurring expenses), or similarly to purchase orders (to pay a one-time expense using a pre-built spend limit corresponding to the quoted cost, a short expiration date, and a rule-restricted number of transactions). It can make more sense to have an expense policy that encourages employees to request these one-time virtual cards rather than impose spend limits on every employees' cards.

Because your rules can dictate that virtual card transactions are pre-approved, and because you can program your system to flag duplicate spend, it's simple to curb wasted spend. Moreover, virtual cards can offer your company the opportunity to earn cash back on an expense that would otherwise be unable to generate it.

Example one-time expenses:

- Renting space for an event.
- Purchasing a new piece of furniture for the office.

Example recurring expenses:

- SaaS subscriptions.
- Ad spend.

Recommended use cases:

- Whenever possible!
- Particularly for recurring expenses (for safety and ease of management).

Physical cards.

As with your virtual cards, you'll need to establish spend limits and compliance regulators for your company's physical corporate cards. There are some considerations that only pertain to physical cards, though.

Considerations:

- Who gets them, why, and how do you keep the total number low?
- When would you want an employee to use a physical card over a virtual card?
- Do you want to use timed spend limits? (Daily and weekly spend limits are great for per diems, whereas monthly, quarterly, and annual limits are useful for budgeting.)
- For the physical cards your company has distributed, what are the practical and responsible spend limits for each?

Purchase orders.

There will be times that a vendor requires a purchase order. And, even after the advent of virtual cards, POs give companies the unique opportunity to summarize terms and conditions between themselves and a vendor, serving as a contract in the absence of one. Your policies should address when your company expects to create a PO for a transaction based on vendor requirements, legal requirements, or cash flow requirements — it is not uncommon for companies to dictate that purchases above a certain threshold must be done via a purchase order, for protecting the firm or for setting up the correct accruals.

Spend management mirrors some of PO functionality:

- Attach contracts to transactions
- Creates audit trail of
 - Requests
 - Approvals
 - Transactions

Reasons to use POs when other payment options with approval workflows are available:

- The vendor requires a purchase order.
- There is no contract with the vendor (so the PO will serve as a contract).
- To establish unique payment terms with the vendor.
- For protecting the company on purchases above a certain dollar amount (programmable).
- To facilitate accrual accounting.

Programmable options specific to POs:

- Optional buffer dollar value (so transactions go through even if some level of agreed charges are added to the original price).
- Saved, pre-configured terms and conditions that will be frequently repeated.

Employee reimbursements.

There will inevitably be times when employees need to make a purchase but cannot use company funds to do so. Often these situations occur when an employee is traveling and doesn't have a company card. Spend management systems use reimbursement request processes, with approval workflows that are analogous to those for card and PO requests, when employees have spent their personal funds. And, like with card and PO requests, you can program rules that prevent an employee from submitting a reimbursement request if your parameters aren't met.

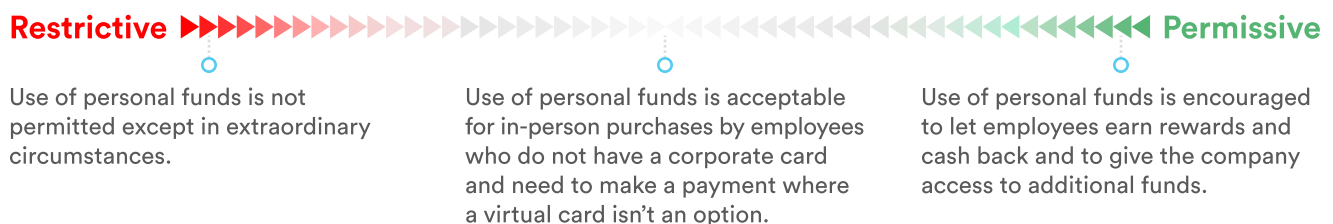
Example reimbursement request rules:

- Restricted time frame (from purchase to request).
- Restricted spend limit.
- Required identification of the vendor.
- Required input for GL category.
- Required statement of intent.
- Required attachment of documentation.

Additional considerations for expense reimbursement policies:

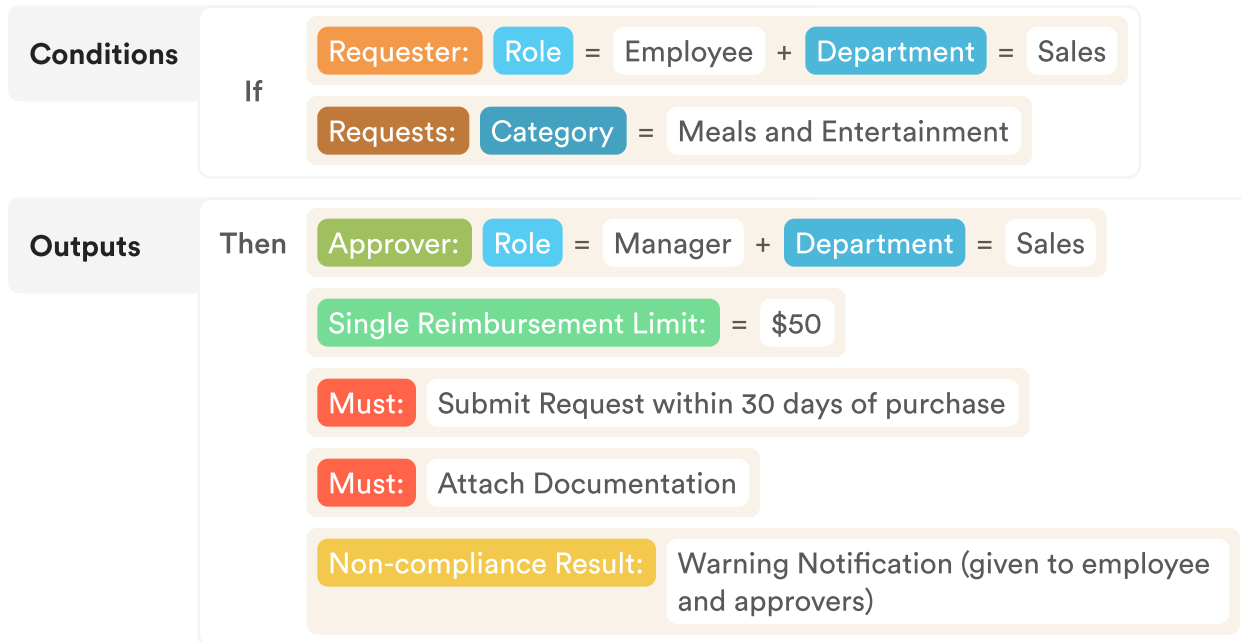
- When employees' funds are used, approvals are after-the-fact, limiting control and real-time visibility into spend.
- For cash flow purposes, use of personal funds can provide additional liquidity to a company that needs it.
- Employees may have become accustomed to using personal funds for business expenses and thereby earn points, rewards, or cash back as a perk of their employment.

Employee Funds Philosophy Spectrum.



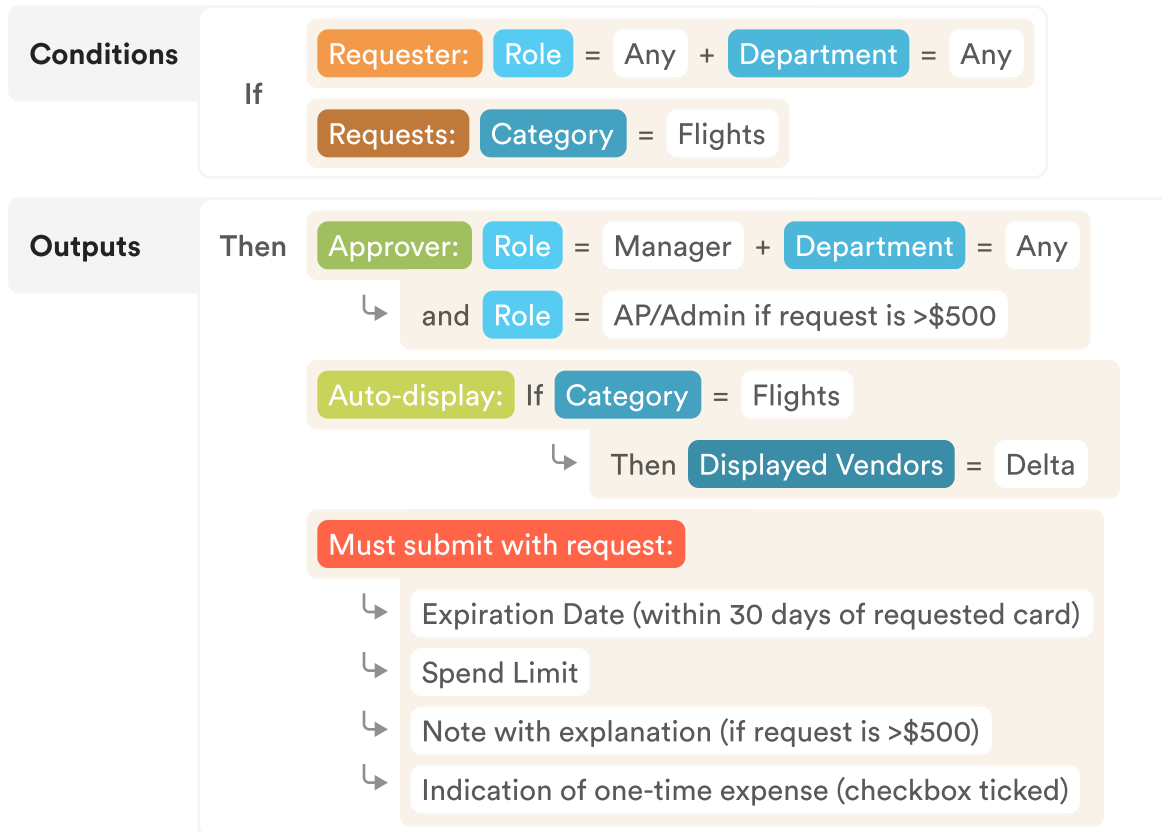
Example T&E expense rules for meals.

PAYMENT TYPE: EMPLOYEE REIMBURSEMENT



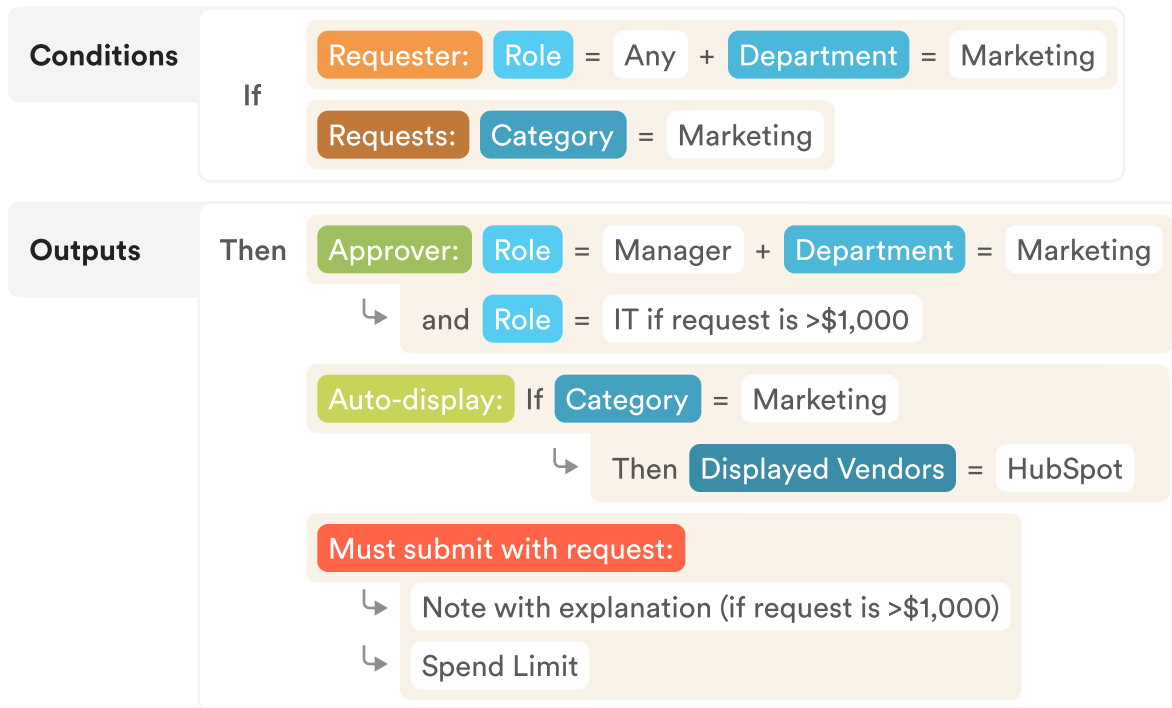
Example T&E expense rules for booking travel.

PAYMENT TYPE: VIRTUAL CARD



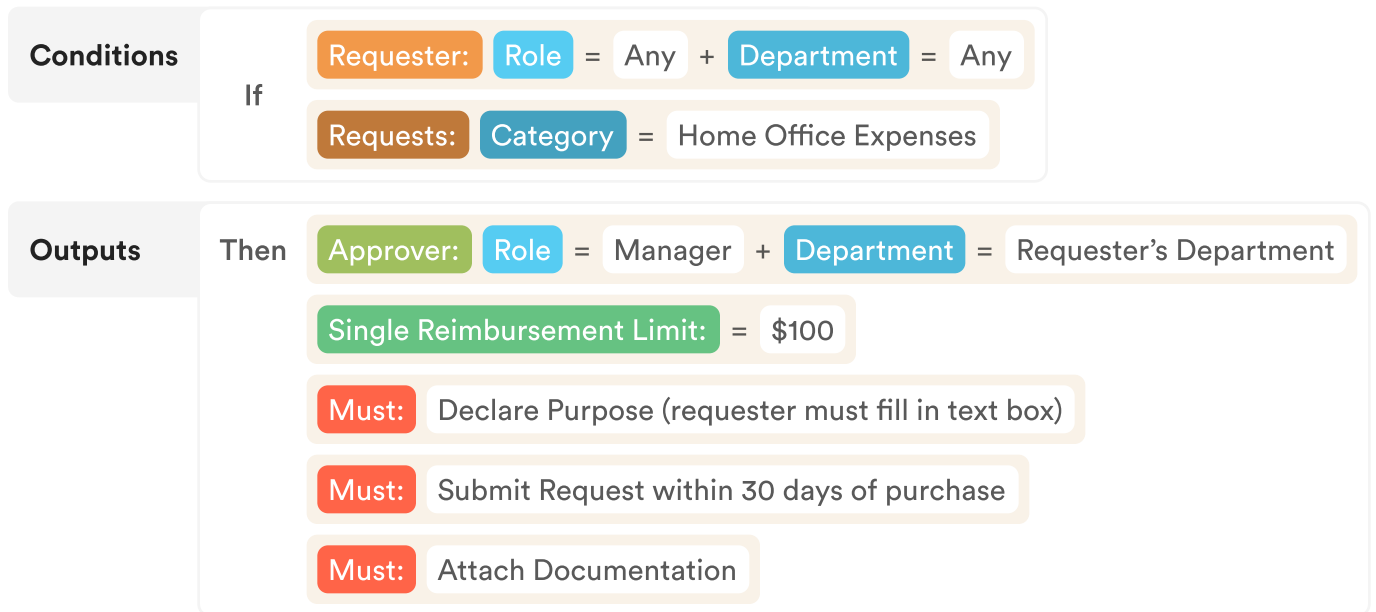
Example expense rules applied to a marketing team SaaS purchase.

PAYMENT TYPE (RECOMMENDED): VIRTUAL CARD



Example home office expense rules applied to reimbursements and to card spend.

PAYMENT TYPE: EMPLOYEE REIMBURSEMENT



Example home office expense rules continued.

PAYMENT TYPE: VIRTUAL CARD





Learn how Airbase spend management can help you take advantage of rule-based expense policies.

Visit airbase.com to schedule your demo today, and check out [The Definitive Guide to Spend Management](#) to learn more about the AP revolution.