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Chrome River 2019
Corporate Expense Fraud Survey

INTRODUCTION

Expense fraud continues to be a considerable business issue for organizations. According to the Association of Certified Fraud Examiners, an incident of expense fraud causes a median loss of $40,000 for companies, and these scams have a median time to discovery of two years. While high-profile cases of politicians or business executives stealing vast sums of money from their employers may be the image that most people have of expense fraud, the reality is that it is all around us, with employees across all types of organizations abusing the expense process.

Chrome River conducted an online survey in May 2019 to understand the scale and types of expense fraud being perpetrated, as well as looking into what makes people decide to defraud their employers. The survey of 1,430 frequent and semi-frequent business travelers was conducted online via SurveyMonkey using its panel of survey respondents, and uses respondents' self-reported answers.

Rates of expense fraud

The overall incidence of self-reported expense fraud has remained consistent at about 5% since Chrome River's first such survey was conducted in 2016. However, one area of note is how this figure varies by age, particularly for males. Males aged 18-34 have by far the highest instance of expense fraud, at 18.4% (almost four times the average), with males aged 35-54 reporting doing so at a rate of 10% (twice the average) and males 55-75 at 5%.

For females, there isn't the same dramatic drop by age. Those aged 18-34 report fraudulent behavior at a rate of 6.3%, compared to 8.4% for those aged 35-55 and 3.8% for those from 55-75.

Incidence of expense fraud by gender
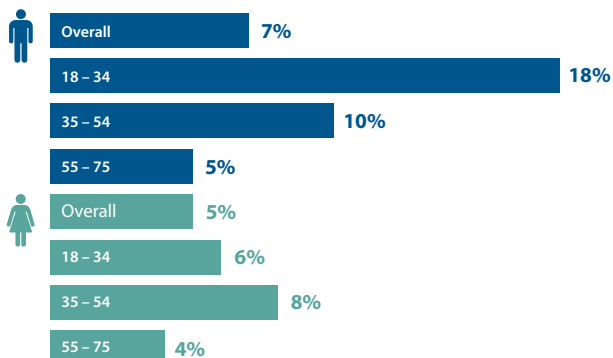
The highest incidence by household income was for respondents earning less that $50,000 per year, at 7.7%. This drops to 5.8% for those with an income of $50,000 to $100,000, and up to 6.3% for those with an income of more than $100,000 per year. While the differences between each age group are relatively minor, this data could suggest that those who have a lower income may be committing expense fraud to increase their income, whereas those at the upper end of the spectrum do so more "because they can."

There are also significant differences by company size and the way that expenses are submitted. People who work for organizations with under 100 employees commit expense fraud at a rate of 8.4%, compared to 5.6% for those at organizations from 100-999 employees, and 4% for those who worked for larger organizations, of more than 1,000 employees.

In terms of submission type, 9.1% of employees who submit expenses manually (i.e. with hard copy receipts and spreadsheets) reported fraudulent behavior, compared to 7.1% for those who give receipts to a secretary or administrative staff, and just 4% for those who use automated expense software. It's worth noting that there is a significant correlation between those who work for smaller companies and those who submit expenses manually, which may explain why these two groups

have the highest levels of fraud. This significant difference in expense fraud incidence between manual and automated processes suggests that companies who rely on spreadsheets and hard copy receipts have a significantly lower ability to prevent fraud.

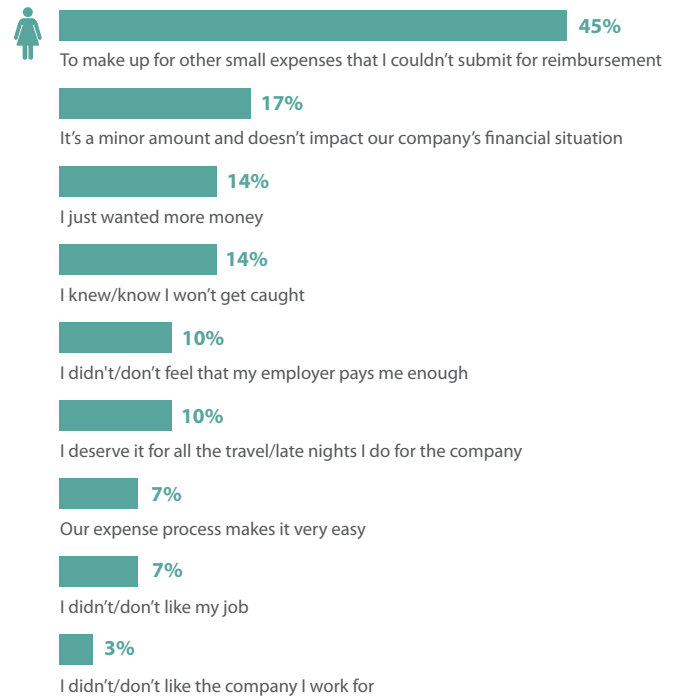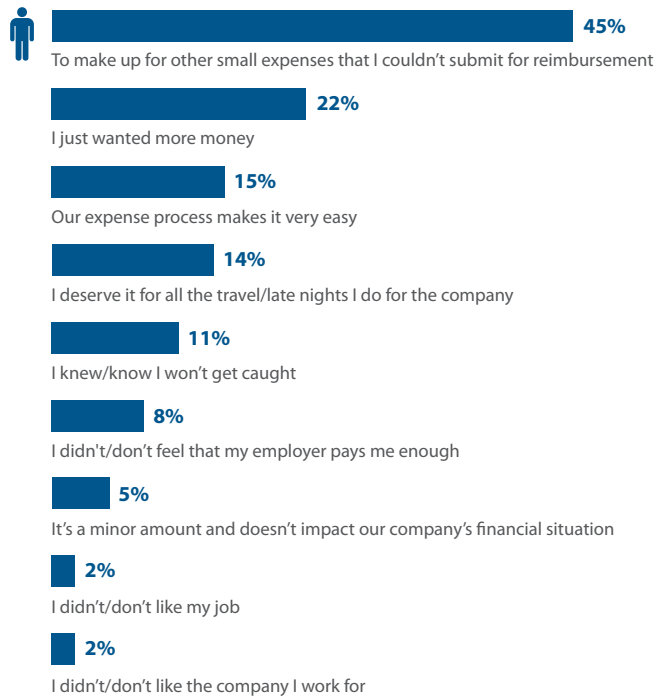## Why (and why not) expense fraud takes place

The justifications that individuals gave for claiming excessive expenses varied significantly by gender. Forty-four percent of each group rationalized their actions by claiming that they were simply making up for other small expenses that they were unable to submit for reimbursement. Similarly, 13% of men and 10% of women justify their behavior because they deserve it for all the travel and late nights that they do for the company.

Aside from this there were significant differences. Men's approach to expense fraud was more calculating than women, whereas women were more prone to try and justify their behavior.

- Men were over 50% more likely than women to respond that they "just wanted more money"

- Men were three times more likely than women to respond that their "expense policy made it very easy"

- Women were almost four times more likely than men to respond that "it's a minor amount and doesn't impact our company's financial situation"

Incidence of expense fraud by gender
Respondents could choose up to three answers

45%
To make up for other small expenses that I couldn't submit for reimbursement

22%
I just wanted more money

15%
Our expense process makes it very easy

14%
I deserve it for all the travel/late nights I do for the company

11%
I knew/know I won't get caught

8%
I didn't/don't feel that my employer pays me enough

5%
It's a minor amount and doesn't impact our company's financial situation

2%
I didn't/don't like my job

2%
I didn't/don't like the company I work for

45%
To make up for other small expenses that I couldn't submit for reimbursement

17%
It's a minor amount and doesn't impact our company's financial situation

14%
I just wanted more money

14%
I knew/know I won't get caught

10%
I didn't/don't feel that my employer pays me enough

10%
I deserve it for all the travel/late nights I do for the company

7%
Our expense process makes it very easy

7%
I didn't/don't like my job

3%
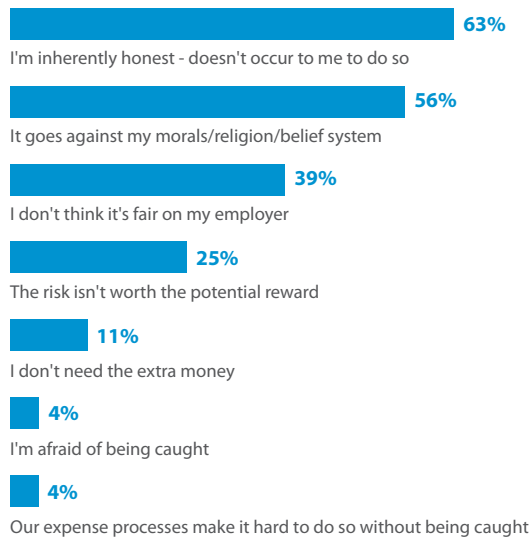I didn't/don't like the company I work for

On the other side of the equation, there was remarkably little difference by gender, age or household income for why travelers choose NOT to submit fraudulent expenses. There was less than a 5% difference for any demographic group from the overall respondents.

The vast majority of respondents appear to not even have been tempted to commit expense fraud, with 63.2% saying that they have never considered doing so, with 56.2 saying that to do so would be against their personal morals.

The potential risk versus reward is only a factor for a quarter of travelers, and just 4.4% of respondents said that fear of being caught was a factor. Similarly, only 4.1% say that their organization's expense process would make it hard to be reimbursed for fraudulent expenses without being caught.

Why have you never submitted inflated/ illegitimate expenses?

Respondents could choose up to three answers

63%
I'm inherently honest - doesn't occur to me to do so

56%
It goes against my morals/religion/belief system

39%
I don't think it's fair on my employer

25%
The risk isn't worth the potential reward

11%
I don't need the extra money

4%
I'm afraid of being caught

4%
Our expense processes make it hard to do so without being caught

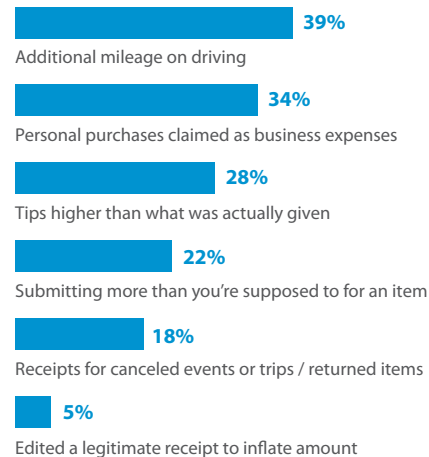## Types, Frequency and Amounts of False Expenses

Although the stories of expense fraud that make the headlines are those of lavish spending, and sophisticated schemes that defraud employers of tens or hundreds of thousands of dollars, this is rarely the case. The vast majority of expense fraud is opportunistic, low-value and frequent.

The most common type of fraud reported—by almost four in 10 of those who admit to fraudulent behaviors—is falsifying mileage. It's easy to do and get away with, and unless the employee adds egregious amounts, is unlikely to raise suspicion. Similarly, the third-most common type of expense fraud—inflating tips on expense submissions—can also be a relatively risk-free activity. Many companies—especially those using manual expense approval methods—simply don't have the checks and balances in place to spot this type of fraud.
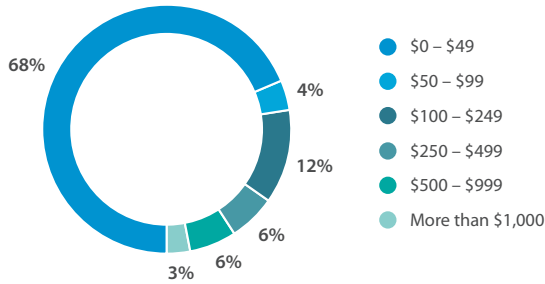
Because much of the fraud committed is low-level, employees typically only defraud their organization out of relatively low amounts on each expense report. Seventy-two percent of all fraudulent expense submissions contain less than $100 of additional expenses, and 84% less than $250. For those who submit large amounts of expense reports, or employees who submit thousands of dollars of expenses each month, it can be easy to these amounts to go unnoticed.

What type of expenses have you added?

Respondents were allowed to choose as many answers as necessary

39%
Additional mileage on driving

34%
Personal purchases claimed as business expenses

28%
Tips higher than what was actually given

22%
Submitting more than you're supposed to for an item

18%
Receipts for canceled events or trips / returned items

5%
Edited a legitimate receipt to inflate amount

How much do you add to each expense report, on average?

68%
4%
12%
6%
6%
3%

- $0 – $49
- $50 – $99
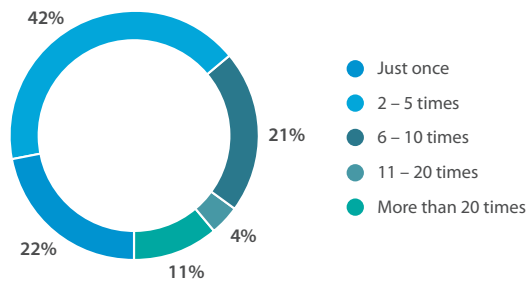- $100 – $249
- $250 – $499
- $500 – $999
- More than $1,000

Many of those who submit fraudulent expenses do so frequently. Only 22% have done so only once, compared to 15% who have done so more than 10 times in the past two years, and 10% who have done so more than 20 times—i.e. almost every month.
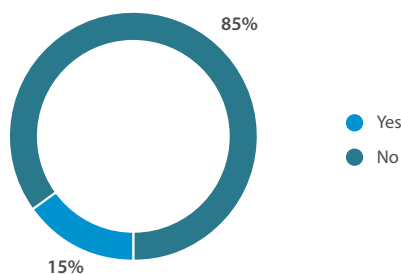
In addition, because much of the expense fraud perpetuated by employees is for relatively low amounts of a sustained period of time, there is little apparent incentive for people to stop. Almost half of those who have submitted false expenses continue to do so, and of this number, more than three-quarters intend to continue doing so.

A further reason for individuals to continue with expense fraud is that the incidence of detection is very low. Less than 15% of those who have done so have been caught by their employer.
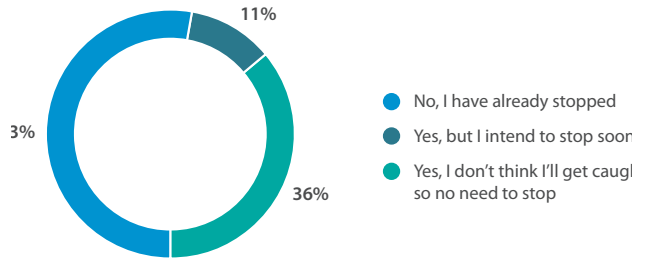
How many times have you submitted in false expenses in the past two years?

42%
21%
22%
11%
4%

- Just once
- 2 – 5 times
- 6 – 10 times
- 11 – 20 times
- More than 20 times

Have you ever been caught?

85%
15%

- Yes
- No

Do you still falsify your expenses?

11%
3%
36%

- No, I have already stopped
- Yes, but I intend to stop soon
- Yes, I don't think I'll get caught so no need to stop

Conclusion

It's easy for organizations to look at the low overall level of expense fraud, or the average amount that individuals add in inflated expenses, and think that it shouldn't be a concern for them.

However this approach would miss the bigger picture of how expense fraud takes place, and how easy it is for perpetrators to continue to get away with it.

As the data clearly shows, much of the fraud that takes place is done by people who believe they aren't acting with malice. Many of those who inflate their expenses believe that they are only doing so to compensate for other expenses that they believe they are owed, or to make up for their sacrifices for their employer. As a result of this, and the typically small amounts that they steal, they are happy to continue doing so with little regard for the consequences of their actions. This constant trickle of fraud can soon add up, and it's likely that perpetrators will become more bold as they remain undetected.

In addition, much of this fraud can easily be stopped before it takes place by putting in safeguards that make it more difficult for individuals to inflate their expenses. Expense automation solutions contain a broad range of safeguards that make it more difficult for employees to exaggerate mileage or tips. If a fraudulent expense passes through the cracks, expense systems' audit and fraud detection capabilities can identify individuals who abuse the expense system.

It's clear that the vast majority of employees are inherently honest, and even many of those who do commit fraud because it's easy to get away with. Eliminating those loopholes and encouraging good behaviors will likely stop the vast majority of expense fraud.

Chrome River

Chrome River provides expense and invoice automation solutions that let business flow for more than 1,000 organizations worldwide. The company's easy-to-use, enterprise-scale solutions enable future-readiness for its customers. As a result of this focus on innovation, Chrome River is rated as a Leader in expense management by analyst firm IDC. Chrome River's commitment to delivering a superior customer journey by creating long-term value for its customers, makes it a preferred choice of CFOs, CIOs, AP teams, travel managers and business travelers. Details on Chrome River's customers can be found on the company's web site.

To find out why more than 2 million business travelers around the world trust Chrome River, contact the company at 888-781-0088, or visit chromeriver.com and its social pages on LinkedIn, Facebook, Twitter, and Instagram.

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