BOULAY

Internal Control Guidelines for Employee Expense Reimbursements

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Employees can incur significant expenses in performing their duties. It is important to establish well-written and clear policies for employee expense reimbursements, since a good system of internal control is key to an entity's success. In conjunction with reimbursing employees for expenses incurred during the course of business, the guidelines below should be followed:

1. **Establish a clearly written policy and procedures regarding the reimbursement of employee expenses.** This policy should document (1) the purpose of the policy and to whom it applies; (2) the list of reimbursable expenses; (3) the items required to be submitted for reimbursement, such as, the completed and approved expense report; credit card statement(s); and the sales receipts or invoices; (4) the time period in which the entity will allow employee expenses to be reimbursed; and (5) the entity's employee expense reimbursement approval process. The approval process should address the person(s) responsible for reviewing employee expense reimbursements, as well as, the requirement for signing and dating the expense reports to indicate expenses have been approved for reimbursement.

2. **Only reimburse employee expenses from an actual sales invoice or receipt.** By allowing an employee to be reimbursed from a sales quote or vendor statement, the entity could be at risk for reimbursing the employee twice if the employee were to also submit a reimbursement from the related sales invoice or receipt. In addition, the Internal Revenue Service (IRS) Guidelines require a valid invoice or receipt to substantiate the expense.

3. **Include the intended business purpose and correct account coding on the sales invoice or receipt, if it is not noted on the employee's expense report.** For meal and entertainment related expenses, the receipt should indicate the names of the individuals present, in addition to, the intended business purpose, and for tangible items purchased, the receipt should include the intended business use of the items purchased and their location within the entity to signify the expense is not a personal expense.

4. **Review and approve all employee expense reports prior to reimbursement.** The person approving the employee expense report should sign and date each expense report to show approval.

5. **Do not allow employee expenses to be reimbursed if the date on the receipt is greater than 60 days old.** Per the IRS Guidelines, reimbursements of expenses that are more than 60 days old are considered compensation to the employee; and therefore, are subject to withholding taxes. Additionally, if employees delay filing their expense reports, it could also cause cash flow challenges for the entity, as well as, bad accounting.

To learn more about employee expense reimbursements, contact a Boulay advisor at 952-893-93320 or learnmore@BoulayGroup.com