

Strategies for Success – The White Paper Series from Concur Technologies, Inc.

The New Corporate World Order:

How Corporate Expense Management Keeps the Checks in Balance

Volume 01, Issue 4

Abstract

Corporate governance and accountability are on the lips of every CEO following the high-profile scandals and corporate flame-outs of the past few years. The Sarbanes-Oxley Act of 2002, probably the most significant reform of U.S. securities law since the passage of the Securities Exchange Act in 1934, was enacted to restore confidence in the public markets. While this legislation was designed primarily to appease disgruntled shareholders, honest corporate officers of public companies are now being forced to understand the implications of Sarbanes-Oxley and how it stands to impact their company, their bottom line, and of course, themselves.

This paper provides an overview of the Sarbanes-Oxley Act of 2002 with a particular emphasis placed on Sections 302 and 404 of the Act which define the certification requirements for those core internal financial controls to which public companies must now adhere. Learn how public companies are leveraging Corporate Expense Management (CEM) solutions to achieve new levels of visibility into corporate spending patterns and consequently, a new level of compliance that's helping put financial managers – and the executives who must now certify their company's financial processes – back in control.

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1.0 A Financial Climate In Flux

The last two years have been tumultuous for the financial community at large. The economic downturn, the collapse of global conglomerates, the questionable integrity of financial dealings, and the subsequent changes in finance regulations has spawned a culture of distrust and cynicism in the investing public.

The Sarbanes-Oxley Act of 2002 was enacted to assuage these fears and restore confidence in the public markets by constructing a foundation for corporate governance that would in turn foster greater accountability throughout the corporate ranks.

1.1 Sarbanes-Oxley: An Overview

The Sarbanes-Oxley Act was enacted in July of 2002 to promote greater corporate responsibility by improving the quality and transparency of financial reporting and auditing functions. The independence of auditing firms, beefed-up criminal laws, and the certification of financial statements are just a few of the more conspicuous and well publicized portions of this new act. However, beneath the veneer of Sarbanes-Oxley lurks a bevy of rules and regulations that are less apparent, and consequently, are of grave concern to any corporate officer who must now certify the veracity of their company's financial statements.

A sweeping piece of legislation, the impact of the Sarbanes-Oxley Act extends to any area that has a material impact on a company's financial results. With T&E expenses representing the second largest controllable spend category, the impact of these expenses on the income statement is significant. Thus, the process for how companies record and document these expenses is of material import to government regulators and corporate executives who must now personally certify that the proper internal controls not only exist, but also work.

1.2 Certifying Internal Controls: Sections 404 & 302

The Sarbanes-Oxley Act of 2002 ushered in a variety of new requirements that hold chief executive officers (CEOs) and chief financial officers (CFOs) of publicly held companies personally accountable for the accuracy and veracity of their financial results.

According to the SEC's preliminary ruling on Section 404, public companies must certify that their 'internal controls' ensure that:

1. Transactions are properly authorized;
2. Assets are safeguarded against unauthorized or improper use; and
3. Transactions are properly recorded and reported.

Concur's Corporate Expense Management software helps to ensure compliance with each of these instances as outlined below:

1. Transactions are properly authorized.

With T&E expenses comprising an increasing portion of today's corporate transactions, it's critical that the proper safeguards are securely in place. Deploying Concur Expense helps to ensure 'all transactions are properly authorized' via:

- ***Integration of Corporate Expense Management Best Practices*** - Integration of "best practice" corporate expense management policies ensures a controlled process exists for each approved expense report.
- ***Configuration of Internal Best Practices*** – Concur Expense can easily be configured to incorporate your company's own internal best practices and procedures into the expense management process.
- ***Expense Categorization & Exception Policies*** – Financial personnel can perform random audits on any approved report and exception rules can be defined to ensure all expenses are properly categorized prior to final authorization.

2. Assets are safeguarded against unauthorized or improper use.

Expense fraud continues to plague corporate America. With the advent of Sarbanes-Oxley, even "insignificant" fraud can no longer be ignored. Concur Expense helps enterprises detect and avoid expense fraud, and consequently, serve to safeguard assets against unauthorized or improper use, through:

- ***State-of-the-Art Business Intelligence (BI) Tools*** – In partnership with Cognos, Concur Business Intelligence modules enable financial managers to quickly identify — and react — to expense anomalies.
- ***Configurable Audit Rules*** – Audit and exception rules can be configured to meet an enterprise's unique requirements. Most importantly, the audit trail is clear and easy to track.
- ***Flexible Work-Flow Configurations*** – Expense authorization and approval chains are a critical component to building a redundant and effective expense management process. Flexible work-flow configurations present organizations with an additional layer of management safeguards.

Expense fraud takes many forms. Examples of fraud include unused airline tickets that are then personally refunded to the employee while being recorded and reimbursed as an expense, or just simply reporting expenses that are not business related. Concur Business Intelligence tools coupled with Concur's new Fraud Intelligence reporting solutions proactively monitor all expenses that flow through the expense system alerting managers when policies are violated or anomalies exist.

In addition, Section 404 of Sarbanes-Oxley also places new restrictions on executive loans and other use of company assets. With Concur's flexible T&E policy administration, distinct rules and reports can be applied specifically to the executive team. In fact, system administrators can apply unique policies to different groups of individuals in order to assure compliance according to their auditors' interpretation of Sarbanes-Oxley.

3. Transactions are properly recorded and reported.

The transparency and visibility of your corporate expense data is paramount when proving that transactions are properly recorded and reported. Concur Expense facilitates data transparency through the following tools:

- ***Intelligent Query Tools*** – Concur unleashes the power of reporting and analytics by providing an interactive tool to query financial databases, unlocking hidden trends that provide unprecedented visibility into corporate spending patterns.
- ***Dynamic Notification Capabilities*** – To complete the reporting cycle, Concur Business Intelligence module's immediate notification capabilities creates dynamic dashboards for management, enabling an 'at-a-glance' view of business performance.
- ***Next Generation Reporting Tools*** – To ensure ongoing compliance, Concur Business Intelligence delivers specialized reports and insightful data to the right people, at the right time.

“If your company has 10,000 employees who manually input data then you have 10,000 potential opportunities for errors and fraud. Automating your expense management system eradicates the guesswork from this laborious and time-consuming process and demonstrates that an organization's internal controls and procedures are in full compliance with Sarbanes-Oxley.”

Steve Singh
Chairman, President & CEO
Concur Technologies Inc.

From *Business Travel Executive*, May 2003

Corporate governance in the 21st century can be summed up in a simple formula: **Visibility + Control = Accountability.**

2.0 The New Corporate Calculus

Corporate governance in the 21st century can be summed up in a simple formula: **Visibility + Control = Accountability.**

Process automation is the glue that binds these elements together resulting in a new financial paradigm that drives disclosure and compliance to the next level of corporate accountability.

2.1 The Costs of Non-Compliance

While the restating of earnings and insider trading scandals have dominated the headlines, expense fraud remains a nagging issue that continues to plague most companies. According to a 2002 report published by the Association of Certified Fraud Examiners, 22% of corporate fraud is committed within the realm of expense reimbursement, costing the average enterprise millions of dollars in annual losses. Most companies will readily admit that they do not possess adequate tools and controls to effectively curb expense fraud.

Specifically, Section 302 of Sarbanes-Oxley states the CEO/CFO must prepare quarterly and annual certifications that disclose any fraud involving management or others with a role related to internal control. Section 404 of Sarbanes-Oxley mandates that reliable internal processes exist that ensure the accuracy of financial data. The consequences for not meeting these requirements are grave. Beyond the possibility of fines that could escalate into the millions of dollars, few public companies can afford to breach the hard won trust of their shareholders. Confidence in a company's controls and processes is critical in an environment rife with mistrust. While process automation does not necessarily guarantee the elimination of expense fraud, it does demonstrate to both shareholders and the SEC that the proper tools are in place to curb fraud at all levels.

2.2 Injecting Accountability Into the Financial Process Via Automation

The Sarbanes-Oxley Act of 2002 decrees a variety of new requirements and regulations that are holding CEOs and CFOs of publicly held companies to new levels of accountability. In addition to attesting to the accuracy of financial information and providing proof that the proper internal controls exist, Section 302 of Sarbanes-Oxley also demands that these executives prepare quarterly and annual certifications to accompany filed financial reports. To satisfy this provision, these certifications must:

- evaluate internal controls and procedures within 90 days of filing,
- report significant changes in internal controls and corrections to deficiencies, and
- disclose any fraud involving management or others with a role related to internal controls.

According to CFO Magazine, more than 400 public companies have restated their earnings over the course of the past two years. The cost of these restatements is enormous, measured not just in time and resources, but also in shareholder and public confidence. The result is a business environment fraught with considerable risks in which finance departments are being held accountable at increasingly higher levels.

Surely, government regulators will not expect corporate officers to keep tabs on every financial transaction that occurs on their clock. However, they will undoubtedly take a hard look at those core internal processes that drive key financial policies. With T&E expenses coming under even greater scrutiny, it's critical that the processes that drive these reporting functions become automated.

2.3 Taking Control with Greater Transparency

As the focus on accountability and cost have grown, companies are faced with a need for increased data visibility to full comply with the various sections of Sarbanes-Oxley:

- Spend analysis needs to be implemented across all business units easily and efficiently.
- Shareholders expect clear identification of the key business drivers and action plans.
- Consolidated reporting is needed as a result of mergers, acquisitions, and globalization.

Public companies must have timely, reliable, and accurate information at their fingertips if they are expected to communicate with shareholders in a manner consistent with today's highly regulated environment. More than ever, financial managers require a consolidated view of their business, not fragmented financial information from disparate business units. Few companies have easy and reliable access to consolidated sources of critical financial information. Instead, they rely on inconsistent datasets that reside in a variety of incompatible financial systems sprawled across their enterprise. Consequently, there is increasing pressure on financial departments to address the proliferation of disjointed data in order to facilitate visibility, and ultimately, accountability.

“One of the benefits of [expense] automation is that once you put an automated system that has the company’s business rules in place, it’s no longer up to somebody to tattletale or raise the red flag because the system automatically generates the red flag. It’s actually part of the application.”

Christa Degnan
Aberdeen Group

3.0 Corporate Expense Management & Sarbanes-Oxley

Behind payroll, T&E is a company’s second largest controllable expense, often representing millions of dollars in annual spend. However, unlike other expenses listed in a company’s financial statements, T&E expenses are often subject to some measure of discretion that hinges on reliable data, human judgment, and a methodical process that documents how funds are disbursed.

But perhaps what makes T&E expenses truly unique is that it is the only spend category driven largely by a company’s employee base. For an enterprise with tens of thousands of employees who regularly file expense reports, this represents a significant source of expenditure. In traditional paper-based or spreadsheet processes, these expenditures frequently are fraught with inconsistencies, mistakes, and fraud.

Corporate Expense Management software, while not a foolproof antidote to preventing fraud, does serve to ensure that a redundant and systematic process exists that provides real-time spend intelligence to an organization’s key decision makers.

3.1 Applying Corporate Expense Management Best Practices

With 10 years of experience in designing and building complex expense management systems, Concur has succeeded in transferring and applying that knowledge into a Best Practice set that continues to evolve with every successful deployment. Concur has amassed a new set of best practices specifically within the realm of expense compliance. These best practices simplify, streamline, and speed core financial processes and enable complete visibility into spend data from single or disparate financial systems. The result is a process that provides greater efficiency, streamlined operations, and management of a company’s spend through increased visibility and effective internal controls.

There are three components of Sarbanes-Oxley Section 404 addressed by the Concur Compliance Solution.

- Concur’s control feature set and services ensure that transactions are properly authorized.
- Concur’s visibility tools, reports and services provide the assurance that transactions are properly recorded and reported.
- Fraud Intelligence coupled with the control feature set and services ensure assets are safeguarded against unauthorized use.

4.0 Concur Compliance Solution

The following chart demonstrates how the deployment of Concur Expense can empower companies to rapidly comply with Sarbanes-Oxley.

Functionality/Service	Control	Visibility	Fraud Intelligence
Best Practices Policy	X		
Work Flow	X	X	
Audit Rules	X		
Multiple Policy Administration	X		
Business Intelligence:			
- Internal Control Reports	X		
- Superior Insight in T&E Spend		X	X
Hosted Services	X		
Professional Services:			
- Deployment	X		
- Documentation	X	X	
- Post Deployment Checkup	X		
- Fraud Detection, Prevention Analysis			X
Concur Imaging Service		X	
Archiving Reporting Data Mart	X	X	
Fraud Finder Tools			X

Control

Concur Expense offers a specific feature set and services to assist a company's drive towards attaining new levels of accountability.

Embedded Best Practices Policy – Embedded “best practices” policies, such as the inclusion of minimum approval procedures and the pre-configuration of the most common expense types, ensure a base level of system controls.

Flexible Work Flow – Concur's flexible workflow model enables content specific routing of expense reports. Multiple workflows can also be attributed to reports based on customized company or group policy.

Configurable Audit Rules – Provides the ability to configure complex audit rules throughout the expense report process to maximize fraud detection and ensure the correct assignment of expense transactions.

Multiple Policy Administration – Enables top-down administration of the T&E policy at a business unit level, geographic regional level or at an organizational structure level. This ensures that internal controls and procedures are consistently applied throughout an organization. Concur's Professional Service organization maintains the expertise to determine the optimum group structure to meet the needs of even the most complex organization.

The policy administration process can also isolate spending by executives, setting separate audit rules and approvals that meet the new stringent tracking requirements on executive spending, reimbursement, and relocation policies.

Visibility

Corporate officers are no longer in a position to plead ignorance when their financial records are called into question. The visibility of key financial data, and the ability to manipulate that data into myriad views, is a catalyst for achieving compliance. Concur offers the tools and reports to help organizations attain unprecedented visibility into corporate spend.

Concur has created reports that will assist companies in fulfilling compliance with Sarbanes-Oxley Section 404. Both internal and external auditors tasked with documenting these internal controls can leverage these reports. The Section 404 compliance reports are contained in the Concur Business Intelligence bundle.

Expense Management Policy Process Report – Documents each group’s policy workflow and the details of each specific audit rule. The policy process report is a key component in documenting the internal controls that exist within the expense management process.

Approved Reports with Exceptions – Lists those expense reports that were approved by the manager or administrators, but contained exceptions. While the controls are in place to ensure that expenses are in compliance with set policy, some reports may purposely be excepted from these policies. This report lists those exceptions providing auditors with further visibility into the approval process.

Expense Report Audit Record – This comprehensive report provides a record of approved reports with exceptions and the corresponding approval workflow.

Expense Management Change Control Report – This report records each instance in which the expense management process was altered since the last financial report filing. The report is connected to the policy process report revealing each modification made to the expense process, including components such as expense types, audit rules, work flow, group creation, and policy creation. The report also identifies who made each revision and when those revisions went into effect.

Concur Imaging Service – Concur Imaging Service enables organizations to digitally capture, catalog, and instantly view any physical receipt that accompanies an expense report further extending a company’s depth of visibility.

Archiving Reporting Data Mart – Leverages a data mart for reporting and archiving of expense data. The data mart structure enables companies to adhere to strict data retention guidelines (Sarbanes-Oxley now requires a retention period of five years) while maintaining peak system performance. Concur is the first Corporate Expense Management solution provider to support an archiving and reporting data mart.

Fraud Intelligence

Concur Compliance Solution offers specific solutions and services to assist a company drive towards attaining new levels of visibility that can prevent and detect fraud.

Fraud Prevention – Concur Expense focuses on streamlining processes, using audit rules and spending limits with card data lockdown to minimize the occurrence of fraud. The control and visibility features provide the critical elements needed for internal control compliance.

Fraud Finder Tools – Concur leverages its extensive business intelligence capabilities to deliver reports and analysis to identify potential fraud. However, despite all of these controls, abuse of expenses may still occur. Consequently, Concur has partnered with a leading fraud identity tool provider to quickly identify potentially fraudulent behavior. Additionally, Concur works closely with each of its customers to ensure the best process is implemented to ensure fraud prevention.

“The need for improved visibility/transparency into enterprise expense details will be of prime importance in light of increasing regulation (e.g. Sarbanes-Oxley), because firms need to ensure visibility into all accounting-driven processes within the firm.”

John Van Decker
META Group

Professional Services – Concur Compliance Solution Engagement

Based on the vast experience of Concur’s deployment teams, Concur provides services that assist companies in complying with Sarbanes-Oxley. The expertise of the Professional Services team coupled with the core functionality of Concur Expense provides companies with the assurance that the process required for compliance will be comprehensive, accurate, and properly documented. The Concur Compliance Solution engagement is focused on the following elements.

- Deployment of Concur Expense will leverage all of the core functionality of the solution to further compliance with Section 404 of Sarbanes-Oxley.
- Documentation is made of all the interfaces and transactions flowing to and from the system. In addition, they will ensure that employees are trained on the use of Concur Business Intelligence, including the process documentation and audit reports.
- A Post-Deployment Check-Up ensures each customer is maximizing its system to fully comply with Sarbanes-Oxley. Customers are re-engaged periodically to review their entire system processes to ensure satisfactory control and compliance of expense related financial transactions and to ensure ROI is maximized. A re-evaluation is especially critical as compliance standards change or as companies change through acquisition, merger, or divestiture.
- Fraud Detection and Prevention Analysis is another key component of the Concur Compliance Solution engagement. Concur reviews all policies, procedures, reports and the implementation of notification tools to ensure that companies are maximizing fraud detection and prevention capabilities. Concur trains each customer’s accounting personnel on the procedures for leveraging core product functionality and the business intelligence capabilities to minimize fraud exposure.

4.1 The Concur Difference: See Deeper, React Faster

Sarbanes-Oxley presents a new set of challenges to Global 4000 companies who are tasked with having to do even more with less. Over the course of the past 10 years, Concur Technologies has driven the Corporate Expense Management category to new heights, innovating a host of features and functionality that empower financial managers to see deeper and react faster. The Concur Compliance Solution is designed to help companies meet these new challenges while reaping the many benefits that transcend regulatory compliance.

Customized Rules & Reports – Financial managers and the executives who are now responsible for certifying the veracity of their financial reports must rely on timely and accurate data. The Concur Compliance Solution, coupled with the industry's most robust business intelligence tools provides decision makers with real-time intelligence that's customized to meet an organization's unique requirements.

Business & Fraud Intelligence – Leveraging the latest intelligence technologies along with Concur's existing comprehensive set of business intelligence tools, executives can view their spend data according to best-practice guidelines as specified by Concur or by their own criteria. These solutions proactively monitor all facets of a company's spend serving both as a critical first-line of defense against fraud as well as a valuable business performance management tool.

Automated End-to-End Process – Technology is only as good as the underlying process that supports it. The Concur Compliance Solution is not a discrete set of tools but rather was designed to work within the greater context of Concur Expense. This powerful combination of process, technology, and people serves as a sound foundation for ensuring the efficacy of core financial systems.

Superior Insight into T&E Spending — No other Corporate Expense Management solution can match the scope of the Concur Business Intelligence offering. Concur has partnered with Cognos to leverage the most powerful reporting and analytics available, along with the capabilities of proactive dashboard delivery to management for an at-a-glance view of business performance. Concur has leveraged their depth of experience and the power of the Cognos toolset to develop additional business intelligence capabilities that increase control and ensure compliance.

Proven Large Scale Deployments – Concur is the only corporate expense management vendor to successfully deploy its solution to the largest of enterprises (200,000 seats). Relying on a time-tested, well-honed methodology for deploying its solutions, Concur continues to improve on its reputation for fast and efficient software integration deployments.

Secure Hosted Services – Concur Hosted Services enable companies to deploy Concur Expense faster while reducing the total cost of ownership through a centralized infrastructure and application management, monitoring, support and maintenance system. With Concur’s SAS70 certified hosting facilities and the experience of hosting more than 800 companies, customers can be assured that their Corporate Expense Management processes and data are 100% secure and available 24/7. All of Concur’s hosting security and processes are documented for Sarbanes-Oxley Section 404 compliance.

Imaging Integration throughout the Approval Process – Concur offers the only Corporate Expense Management solution that integrates imaging technology, enabling real-time viewing of digitized receipt images throughout the expense report filing, approval, and post-approval process.

5.0 Conclusion

While Sarbanes-Oxley might be perceived as a thorn to many C-level executives, it also represents a significant opportunity for organizations to dramatically streamline those critical processes that drive business performance. Corporate Expense Management has been proven to help companies manage their bottom line. Now, companies are discovering that taking greater control of their corporate spend yields a welcome and necessary dividend -- trust.

“Corporate reform experts say that the Sarbanes-Oxley Act will require new expense reporting methods to make sure that abuses can be prevented in the future.”

David Jones
Business Travel Executive

About Concur

Concur Technologies, Inc. (NASDAQ: CNQR) is the world's leading provider of Corporate Expense Management solutions, servicing more than 1,100 companies worldwide. Concur's solutions include Concur Expense for travel and entertainment expense management and Concur Payment for managing employee request for vendor payments. Concur also offers value-added software and services to complement its core solutions, including Concur Imaging Service, Concur Travel Integration, Concur Business Intelligence, and Concur Total Access. Concur's solutions streamline business processes, reducing operating costs and improving internal controls while empowering financial managers to apply greater intelligence to their company's spending patterns. More information about Concur is available at www.concur.com.



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