



## Dealing with Not For Profit Expenses

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*Not for profit (NFP) organisations have to be seen to be “cleaner than clean” – and providing full visibility to all expenses across the organisation is a critical need.*

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Not for profit (NFP) organisations have a core responsibility to ensure that as much of their income is spent on the target of their organisation. As such, salaries and other direct costs have to be controlled and reported through to donors. One area that is open to abuse – and as such could put off donors and bring grants into question if not handled well – is expenses.

NFPs need to be able to track all expenses, whether incurred by a paid employee or by a volunteer, and also need to be able to rapidly deal with requests for repayment of expense. All expenses need to be easily reported, not only internally to the NFP, but also to any bodies responsible for overseeing the NFP and to all its donors.

This report looks at how this can be best done without the need for complex and expensive internal systems.

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*Not for profit (NFP) organisations have to be seen to be “cleaner than clean” – and providing full visibility to all expenses across the organisation is a critical need.*

## **NFPs have a range of specific issues around expense management**

Ensuring that funds that have been provided through grants or donations are being used correctly means that high levels of visibility of expenditure are required. With expenses often being the largest financial outgoing for many NFPs, the need to manage expenses according to internal policy and legal requirements is of critical importance.

## **NFP workforces are decentralised and difficult to manage**

In many cases, the workforce for an NFP will have a large proportion of volunteers, who may be unused to claiming expenses and may only need to claim on an ad hoc basis. Expecting such individuals to fully understand any expense policy is not viable – a system has to be put in place that will guide them through what is expected and allowable – and will also minimise the need for them to use personal funds in any expense situation.

## **Although some NFPs are very large and will have a significant IT capability, the majority will not**

The majority of NFPs are relatively small operations, and will not have much in the way of an IT system. Current expense processes may well be based on paper systems or around the use of spreadsheets. This can lead to a lack of visibility and control of expenses that can have far reaching impacts on how the NFP is viewed by its stakeholders.

## **Lax expense controls open up the door for systematic abuse**

The media continue to report cases where NFP employees and volunteers have abused their role for personal gain. The impact on the NFP can be catastrophic, with donors distancing themselves and donations drying up, constraining the capability of the NFP to carry out its work.

## **An externally hosted and managed expense system offers the best solution**

Through the use of an external system, expense policies can be easily codified and a decentralised workforce can be given access to the system wherever there is an internet connection. The use of smartphone-based apps can further improve accessibility and enable individuals to remain within policy no matter where they are or what the expense may be. Such a centralised system will also enable better expense monitoring and reporting, so enabling all stakeholders to be kept informed on how NFP funds are being used.

## **Conclusions**

NFPs have distinct requirements for managing expenses that are different in many ways to those seen within the commercial sector. The NFP sector has a broader set of stakeholders than many commercial organisations and tends to be under greater scrutiny due to the way that the funds they are dealing with are gained in the first place. Well managed expenses can help in showing that an NFP is maximising the amount of funds spent on the target good cause; abuse or lack of control of expenses can easily scare away donors or force a review of grants being awarded. However, a lack of dedicated personnel, a high number of volunteers, a lack of IT infrastructure and a need for greater expense visibility militates against an NFP attempting to manage expenses through a direct internal approach. There needs to be a drive towards a hosted system where the provider covers the legal aspects around expense claiming along with the need for policy enforcement and, wherever possible, payment of agreed expenses directly from NFP funds, along with open and timely reporting to meet the needs of the various stakeholders.



# The world of the NFP

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Not for profit (NFP) or non-profit organisations (NPOs) encompass a wide range of organisations. The idea of such an organisation is that they have funds that may consist of standard income from sales of goods or services, along with income from donors. After subtraction of necessary costs, all remaining money is used in aid of a cause, whether this be humanitarian, historic or whatever. At the end of every year, there should be no profits left over, with any remaining money being put into funds for future use. NFPs can have paid employees and will generally have a board of trustees or a similar function to oversee the running and aims of the NFP. Many NFPs will have a proportion of volunteer staff that will provide their time and skills without pay in order to help the aims of the NFP. Also, many NFPs are very small – not all organisations can be of the size of the Salvation Army on a worldwide basis, the UK's National Trust or the American Red Cross. With over 1 million NFPs registered in the US alone and over 162,000 registered charities in the UK, the NFP market is large – and complex.

The majority of NFPs have to work in a distributed manner. The targets of their work will often be spread across many different locations, and therefore travel expenses may be a large part of overall outgoings. However, the people involved in the travel may have little contact with each other and there may be a high amount of redundancy in travel plans – and considerable savings could be made through sharing, or even through renting a vehicle specifically for those needing to travel.

The majority of countries where NFPs are legally acknowledged will have specific rules around what can and what cannot be claimed as expenses by the various people involved with the NFP. However, this has not stopped less scrupulous individuals from fraudulently gaining from an environment that, by its very nature, tends to be more lax around tracking and monitoring expenses than a commercial corporate entity would be. Many NFPs will be running their whole organisation on one or two desktop computers; some may have more of a formalised system for running membership lists, donor records and so on, but few will have the breadth of scale, domain expertise and need for a full datacentre environment.

Even where the reporting of expenses is not mandatory for an NFP (as in the UK), if full visibility is provided to possible and existing donors, it is far more likely that they will donate again. In many regions, independent bodies will rate an NFP's performance based on what percentage of a local unit of currency is spent directly on the cause. For example, in the US, the American Institute of Philanthropy (AIP) rates NFPs on how they spend their money, and states that a minimum of 60% (or 60 cents in the dollar) should be spent on the cause directly for an NFP to be deemed effective. In the UK, the Charities Commission can remove charitable status if costs are not seen to be under suitable control. Therefore, controlling and minimising expenses can make the difference between being seen to be effective or not.

In 2008, an IpsosMORI study into perceptions of trust in the UK NFP sector found that the main drivers for trust in the sector were as follows:

- the belief that charities spend their money wisely and effectively is the principal driver of overall trust
- the belief that charities ensure a reasonable proportion of donations make it to the end cause and ensure that fundraisers are ethical and honest are also important drivers at the top level
- the belief that charities are regulated and controlled to ensure they work for the public benefit is another primary driver

The majority of small donors expect that NFPs will be very careful in what expenses they incur, and will certainly not expect there to be any abuse of expenses. Large and corporate donors want to ensure that the NFPs they align themselves with are trustworthy and are seen to be effective in the work they do. Fraudulent use or poor control of expenses can ruin an NFP's brand reputation – one that may have taken decades to build up.

It has to be accepted, however, that not all NFPs are aimed at what everyone would accept as being a "good cause". Many can be divisive in the cause that they support; others may be a one-person, one-issue campaign that has little



support from outside the individual's own environment. At the worst end of the NFP spectrum are those organisations that are set up specifically to put money into the pockets of one or more individuals directly yet, even here, the need for visibility of expenses is important, even if it is only as a means for externals to force individuals to show where money is being spent.

## NFP expenses and the press

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In the corporate world, the odd fiddling of expenses is unlikely to hit the headlines. It is only when gross fraud is seen that the media sparks into action. With NFPs, however, things are different. Even small abuses – or perceived abuses – are deemed to be newsworthy. After all, the money being used hasn't been "earned" – it has been donated or provided through some means for use against what are deemed to be good causes. Anyone taking money from these funds for any reason outside of the good cause can be publically reviled – and the NFP itself can get caught in the crossfire. In the commercial sector, the common expense fraud of "adding a few miles" to any journey may well still be a common practice – but even at this level, in the NFP sector it can lead to funds being diverted from their primary good cause.

The following are a selection of headlines culled from recent stories about people who have abused expenses, or have been perceived to be overcharging for expenses, within their roles in NFPs:

- An inquiry into expenses claimed by a chair of an NFP in North East England showed that £200,000 had been taken from the NFP without the knowledge of the Trustees of the organisation for work that should not have been claimed for.
- A gambling addict stole £8,300 from the mental health charity he worked for through faking expense claims.
- Bosses at a homeless charity in the UK were found to be juggling money between accounts and mischarging expenses against a £2.3m fund provided through government grants.
- The director-general of an NFP charged with running state-funded city academies in the UK claimed for £1,436 for a hotel stay for himself and a colleague for a 2-day event, in an area where good hotels in the area are available for under £100 per room per night.
- Two brothers in Tucson running an NFP dealing with social security claims for the elderly and disabled used inflated expenses to syphon off \$1.3m over a fourteen year period before being caught.
- An NFP run for racehorse owners took \$1m from one account and used this to fund high-expense items such as political lobbying and travel expenses to areas where such travel was unnecessary for the aims of the NFP.
- An NFP set up to fund teachers' salaries in remote Asian villages was found to have spent \$610,000 of \$1.7m raised by students across America in expenses – without much to support what these expenses were incurred for.

Some of the above stories demonstrate what can only be seen to be fraudulent use of expenses within an NFP, whereas others demonstrate insufficient control of the expense process, allowing people to spend more than should be expected for a person within this field. The press love "human interest" stories, and misuse of funds raised through donation or philanthropy tends to create a great headline. That the NFP itself may not be the main cause of any issue directly, maybe allowing too much trust to be placed in the hands of any one person or in having loose policies and processes around expenses, is neither here nor there. The impact is not only for any one NFP, but also for the NFP market as a whole, and can be crippling. If donors begin to perceive that their donations are not being spent wisely, then they may choose to donate elsewhere. If they perceive that the NFP market is increasingly corrupt and is syphoning off money for their own ends, then they will cease to donate. Whether this is an individual with a small donation or a multi-national organisation making a large donation is neither here nor there – the impact across the board can be large, and even those NFPs that run themselves well and manage their expenses in an exemplary manner may find themselves tarred with the same brush.



# Creating expense policies and procedures for NFPs

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It is important to not only ensure that expense policies adhere to any quasi-legal requirements, such as the Charity Commission's CC11 requirements for Trustee expenses in the UK and the fully legal requirements of 501(c)3 rules in the US, but that the rules reflect the ethos and aims of the organisation itself. To this end, the NFP must first decide how it wants to be viewed by the stakeholders it is dealing with. These stakeholders will include:

- The target of the NFP's work – for example, those working with wildlife, historic sites, the homeless, the sick, etc.
- Those providing funds – for example, government bodies, corporate donors, large donors, small donors.
- Those responsible for overseeing the running of the NFP directly – for example, Trustees, directors, management.
- Those responsible for overseeing the actions of NFPs at a regional or central level – for example, the Charities Commission in the UK.
- The general public.

For example, if we take an NFP that works on behalf of the homeless, it is likely that an expense policy that allows NFP representatives to stay at 5\* hotels where 2\* hotels are easily available will not impress many of the stakeholders. An NFP working in the environmental sector may struggle with an expense policy that allows a lot of first-class air travel and pays high mileage rates for car travel.

Creating an expenses policy requires the NFP to balance its direct needs against the expectations and perceptions of the stakeholders, plus any legal aspects of what is acceptable in the sector. The creation of the policy in itself warrants time to get it right – and it may need the involvement of representatives from the stakeholder environment in getting it right. However, the policy in itself is not sufficient – it is how the policy is monitored, managed and reported that counts.

Many NFPs will deal with expenses on an ad hoc basis, refunding expenses on a trust basis, with possibly a signature required to show that payment has been made for a specific claimed expense. Where employees are concerned, the NFP may deem it necessary to put in place some formal claims form around expense claims, which may well be based on the ubiquitous spreadsheet. For those NFPs dependent on volunteers, it is likely that expenses will be only claimed on a rare basis, and it is felt that a formal process would be overkill. Indeed, any expenses claimed by a volunteer are likely to be through cash or personal credit card – the majority of NFPs will not be in a position to provide corporate credit cards or expense accounts to its volunteer force and probably will not have these in place for any paid workforce either.

In both cases, the risks are high. For ad hoc expenses paid without the support of receipts, there is no proof that the expense was really incurred. For spreadsheet-based systems, reconciliation can be difficult; ensuring that the underlying calculations in the spreadsheets are updated as required and that the constant deletion and addition of rows has not created mistakes in the overall expense claim can cause problems. Also, if all the details for expenses are held on a single machine without being adequately backed up, a machine failure or its loss through theft can result in the loss of all expenses records – opening the NFP up to visibility and regulatory issues if any questions are asked about expenses.

Quocirca recommends that a simple, always-available system be used to deal with NFP expenses – one that is managed and controlled by an external provider that fully understands the needs of the expense claimant, maintains compliance with all applicable legal requirements while also ensuring that monitoring and reporting can be carried out in a simple and highly effective manner.



## Dealing with volunteer expenses

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A volunteer workforce brings in a complex set of issues when it comes to expenses. Firstly, there is unlikely to be any formal contract between the NFP and the volunteer, so there will be little capability for the volunteer's responsibilities to be detailed in the way that a contract of employment will cover in the commercial sector. Many of those volunteering may never have had to make an expense claim before, whereas others may bring expectations of an expense culture similar to those they may have experienced in a more commercial environment. Next, volunteer workforces tend to be highly changeable. A churn rate of volunteers of 30% per annum is common, yet claims for expenses may still come in from individuals a year or more after they have stopped dealing with the NFP.

However, the biggest issue is in the way the expense itself is incurred, and in how the NFP deals with ensuring that the expense is warranted and then in recompensing the volunteer.

In the first instance, wherever possible, the expense should be pre-requested by the volunteer. For example, if they are going to travel to a remote location, the volunteer may assume that they can just choose the mode of travel and the NFP will pick up the expense. In some cases, the volunteer may expect this to be a direct payment for a ticket without them themselves having to pay first, in other cases they will pay from personal funds and then attempt to recover the expense. This may create issues for both parties. For example, assume that the volunteer has elected to travel by plane to the destination, and has chosen a business-class seat. In an effort to save money, they have chosen and paid for lowest fare option seats – so the tickets are non-refundable. Suddenly, the NFP is faced with an expense of several thousand dollars – but also the knowledge that not paying it will land the individual with a considerable cost.

Through ensuring that such expenses have to be pre-agreed, such a problem can be avoided. However – how can this be done with a highly distributed group where there is little to no central IT capability? If the expense management system is outsourced to an external provider, the system can be accessed by anyone from wherever they are, provided that there is an internet connection. The NFP's expense policies can be entered as a set of rules, and employees or volunteers can then ensure that any expense that they are to incur fits within the policy. Exceptions can be accounted for, either through having them built into the rules, or through the capability for the requirement to be escalated to someone within the NFP who can make a rapid decision as to the merit of the expense.

Further, if the correct provider is chosen, travel companies can be included in the mix, so any travel can be booked directly from the expense system – and the individual can be led through to using any travel discounts that may be offered. For many NFPs, there may well be special deals with specific travel companies. These deals would not be available for the individual if they were booking directly, but an on-line, managed service should be able to bring these to the fore so enabling considerable travel expense savings.

An on-line system also enables the NFP to take more control of how expenses are paid. For travel and accommodation expenses in particular, as long as the booking is made through the system and meets the policy, payment can be made directly by the NFP from its funds, so negating the need for the individual to use their own funds for any period of time.

For more ad hoc expenditure, an on-line system should be able to support a range of mobile devices, and there is an increasing availability of apps for smartphones and tablets. These days, the majority of people involved with an NFP will have access to a personal mobile phone, and by getting the app installed on the device, ad hoc expenses can be better managed. For example, if a volunteer is away and needs to have a meal, the presence of an app on their mobile phone will enable them to check what the policy is for meals – are they allowed to spend up to a certain amount, are there exceptions for major cities, are there preferred restaurant chains that they should use? Also, payment may be able to be made directly from NFP funds in some cases but, even where a personal expense has to be made, the claimant can use the camera in their phone to take a picture of the receipt showing exactly what the



expense was for future reference. By logging their credit card details with the system, the individual can also ensure that any agreed expenses incurred on behalf of the NFP are paid directly to the credit card company, rather than indirectly via a cheque or direct bank payment to the individual, who could then incur payment charges and interest through having to then pass payment on to the credit card company.

A further example is in the use of taxis – some hosted expense management systems can tie in with taxi firms' systems, so that a taxi can be called direct from the phone via an app and, on completion of the journey, the individual just transfers the fare and any tip directly to the taxi firm via the app. Again, this can be funds from the NFP, rather than from the individual's own credit card.

## Complex NFP expenses

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The need for dealing with expenses for an NFP can be made more complex due to the nature of the set-up of many NFPs. Being able to differentiate between the expenses that a Trustee can claim, based on what services they provide and what they are doing, and what cannot be claimed can be difficult. Dealing with full time, paid employees for an NFP is clearer; essentially, standard commercial expenses rules and laws apply for them. A volunteer workforce brings in a set of issues around being able to differentiate between what they incur by themselves and as such cannot claim for, what should be deemed to be a reimbursable out of pocket expense, what is an expense that has to be incurred to carry out the NFP's aims and, even where expenses may be covered by more than one area – for example, where a volunteer carries out an action for the NFP while travelling for work purposes, means that expense management can be extremely complex in the NFP market.

Again, it comes down to being able to understand what the NFP itself feels its expense profile needs to be, and then matching this with the recommended and legally mandated rules from external agencies. For example, an NFP may feel that its volunteers should be paid a suitable amount for use of their car for NFP purposes. However, anything above the accepted rate may result in them being taxed on the additional payment – something that would create a great deal of extra time and cost for the volunteer. Another area may well be whether the volunteer is actually covered for such a journey – for example, are they insured for carrying out travel for the NFP in their own vehicle, or should the NFP provide either insurance or a dedicated vehicle?

Such complexities can, again, be encapsulated in the overall expense policy, and if this is then managed via a centralised system hosted outside of the NFP, all Trustees, employees and volunteers can access the same core system – with the same rules. These rules can be differentiated by type – for example, a Trustee may be able to claim an hourly rate as an expense for specific services, whereas an employee can only claim for specific out-of-pocket expenses. An employee may be restricted to rooms at less than £80 per night, whereas a volunteer may be able to have rooms up to £120 per night to reflect that they are giving up their time free of charge.

For NFPs that work across borders, further complexity may be introduced. Different countries may have different legal rules around how much can be claimed and in what manner. Tax regimes may be different, with different rates of tax being applied to different products and services. An NFP cannot be expected to divert funds to maintaining skills in covering global tax laws, so by outsourcing expense management to a supplier, who already has that domain expertise in place, the NFP can get on with what it is there for – helping the cause it was set up for.

The key is to provide a system that can embrace complex rules that can deal with exceptions in the easiest possible manner and requires no training for occasional users in its use. The idea is to make it easier for anyone to use the default system, rather than getting them to work around this.



## Conclusions

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An NFP, while appearing to be very similar to a standard commercial organisation, has a level of complexity that can create distinct difficulties in ensuring that all its stakeholders are satisfied with how it runs its overall expenditure. Creating the right basic expense policy is incumbent on the NFP, but the role of ensuring that the policy is enacted and enforced should not fall completely on the shoulders of the NFP itself. The technology is available to provide an easy to use system that can deal with the legal complexities that underlie the expense claims system. Through the use of an appropriate hosted solution, the need to provide a technology platform for maintaining and patching a system can be offloaded to the provider. Similarly, the domain expertise required to keep up to speed with changes in the laws around expense management can also be outsourced to the provider.

The chosen system should be easy for all to use – Trustees, employees and volunteers. By the nature of the users, it has to be a system that requires no training, as many will only use it on an occasional basis. It also should provide easy access to support, so that those using it who may struggle can easily be helped to overcome any issues.

It also needs to be inclusive – NFPs are in no position to dictate the kinds of technology volunteers use in helping them out, and so access devices will be diverse. Any chosen solution should provide support for as many different device types as possible, and have a proven record of being able to embrace new device types as they appear.

The system should also provide a means of funds from the NFP being used directly to pay agreed expenses, so bypassing the need for an individual to use their own funds. Through tying in with travel and accommodation companies, this should be possible. Through providing apps on mobile phones, it may be possible for some ad-hoc expenses to be paid directly as well.

Overall, Quocirca recommends that NFPs of any size move towards better control of their expenses. This requires a system that enables policies to be enacted and enforced, and for reports to be run on a regular and timely basis. By being able to show how expenses are being well managed, NFPs can use this as a part of their own campaigns – and should be able to attract more donations based on being seen to use a greater proportion of funds in actually working on the cause.



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**REPORT NOTE:**

This report has been written independently by Quocirca Ltd to provide an overview of the issues facing organisations seeking to maximise the effectiveness of today's dynamic workforce.

The report draws on Quocirca's extensive knowledge of the technology and business arenas, and provides advice on the approach that organisations should take to create a more effective and efficient environment for future growth.

**About Quocirca**

Quocirca is a primary research and analysis company specialising in the business impact of information technology and communications (ITC). With world-wide, native language reach, Quocirca provides in-depth insights into the views of buyers and influencers in large, mid-sized and small organisations. Its analyst team is made up of real-world practitioners with first-hand experience of ITC delivery who continuously research and track the industry and its real usage in the markets.

Through researching perceptions, Quocirca uncovers the real hurdles to technology adoption – the personal and political aspects of an organisation's environment and the pressures of the need for demonstrable business value in any implementation. This capability to uncover and report back on the end-user perceptions in the market enables Quocirca to provide advice on the realities of technology adoption, not the promises.

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