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# How to Create an Effective Expense Policy

A Comprehensive Guide for Canadian Businesses





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## 01

# Introduction

Finance professionals have a fiduciary responsibility to safeguard company assets, and while ad hoc policies may suffice in its earliest stages, most will reach a point when they need to put expense guidelines in writing.

An effective expense policy makes clear how and when employees can and can't use company funds, how to document those expenditures appropriately,

how to get reimbursed, and what happens in the event of noncompliance.

An expense policy enables finance professionals to maintain control over company resources, ensure legal and regulatory compliance, and guard against fraud or abuse.





02

# Understanding The Need For An Expense Policy

Businesses fail when they run out of money, so maintaining control over expense management is critical to their survival.

Andrew Oh, the CFO of Vancouver-based start-up ThoughtExchange, says many early-stage companies operate without a formal expense policy, but as their headcount grows it becomes necessary to put policies in writing.

“When you operate without one, there’s just no clarity, transparency, visibility into things,” he says. “You can operate without one if you’re in a company of, say, 10 — because everyone knows what’s going on, everyone is a major stakeholder — but as you scale you need to be able to ‘know’ what people are doing without seeing it all the time, and an expense policy provides that common understanding.”

Oh adds that an expense policy serves three primary purposes.

**1. Corporate governance** – upholding your fiduciary responsibility as a finance professional to preserve and protect company assets.

**2. Operational clarity** – providing managers and leaders visibility into how company assets are being used in service of achieving business objectives.

**3. Employee clarity** – ensuring that staff members have a common understanding of basic principles like what qualifies as an expense, how to get reimbursed, and what happens in the event of policy violations.

According to KJ Lee, the VP of Finance for Toronto-based HR software provider Humi, a well-crafted expense policy also allows a business to operate more smoothly as it scales. “Understanding what your guard rails are, and having the freedom to operate within that, actually increases the velocity of the business,” he says.

Having clear guidelines on how employees spend company money is also important in the event of an audit, according to Jennifer McNamee, Float’s Senior Finance and Accounting manager.

“If you don’t have that policy in place, there’s nothing to check transactions against to ensure you have proper controls,” she said. “That’s why it’s really important from a financial audit perspective, because if you’re getting an opinion on a control, you don’t want to fail that portion of the audit.”





## 03 Key Components Of An Expense Policy

A well-crafted expense policy offers employees clarity on all things expenses. Offering a high level of insight therefore requires offering lots of details in an easy to read format.

When crafting your expense policy, it's important to keep some of the most common business expenses top of mind, such as travel expenses, client meals and entertainment, company social events, software tools and gas mileage. McNamee suggests writing the policy from the perspective of an employee who is about to take a trip, or host a client dinner, or purchase a piece of software, to help address some of the most common scenarios.

“Make it clear, for example, that if you're traveling and you get \$50 in meal allowances per day that the amount isn't cumulative, so if you only spend \$20 the first day the remaining \$30 doesn't roll over to the next day,” she says. “Typically, if I get a question from an employee, I take that as ‘your policy is not clear,’ even if just one person has a question, because it's likely others have the same question, so I try to update the policy.”





## 03—Key Components of an Expense Policy (cont.)

With that in mind, here are some of the most common components of a typical expense policy:

### 1. Policy objectives

Since expense policies typically include a lot of rules and requirements it's important to remind employees why such guardrails are necessary. Consider kicking off your expense policy with a few clear points that demonstrate why such a policy is necessary, while offering a framework for the guidelines that follow.

### 2. Policy scope

These days even smaller organizations are made up of a wide variety of employee types, from executives to interns, remote workers to contractors, and everything in between. Often these cohorts aren't subject to the same rules, which is why it's important to define whom the policy applies to.

"Anyone that's managing anyone else, those people leaders would have policies that apply to their team specifically," explains McNamee. "There's also department level scope, so the finance team will have a different budget than the sales team, which has a budget to take out clients, so approaching it from all different angles is important as well."

### 3. Expense categories:

Putting expenses into precise categories helps finance professionals better manage budgets and review how funds are used, but McNamee warns that policies need to balance the value of those insights against the burden of collecting them.

"If you make your categories extremely detailed, it can be confusing for employees, but if you keep them very simple, the employee knows exactly where to put it, but it makes it harder to do a cost analysis," she says. "For example, categorizing everything as travel rather than breaking down costs for flights versus gas versus hotels."

McNamee adds that when considering expenses categories it's up to finance teams to find the right balance between complexity for employees and level of granularity for financial analysis.





## 03—Key Components of an Expense Policy (cont.)

### 4. Spending limits

Finance professionals are responsible for setting limits on employee expenses based on budgetary restrictions and necessity. While you don't want employees reaching into their own pockets to cover the company's expenses you also don't want to give them too much leeway, and inadvertently encourage overspending. Furthermore, with inflation currently above normal, Lee of Humi says it's become more important to update spending limits regularly.

"We evaluate our expense policy on an annual basis, but because of the pace of change with inflation in the last couple of quarters, at this point we should be looking at it on a quarterly basis," he says.

### 5. Approval process

Your policy should cover most expenses employees encounter on a regular basis, but it should also clearly outline a process for assessing those that fall outside the usual margins. Be sure to describe the procedure for obtaining approvals for items that are not listed in the policy or exceed budgetary limits, including how to submit inquiries and who is responsible for reviewing and approving them.

"This goes back to ensuring the speed of operation; people should be able to spend within certain limits, but there might be exceptions to the rules," says Lee. "There should be a way to raise flags and ask for approval when there needs to be an exception, and below that people should have the autonomy to operate freely."

### 6. Documentation requirements

Whether in the form of a paper receipt or a PDF invoice, most expenses will come with supporting documents, and your expense policy should include some description of which documents to submit, and how. McNamee adds that you may also want to consider implementing a minimum threshold for logging receipts, as some smaller expenses may not be worth the time and effort necessary for documentation. In Float's case, that's anything below \$30.

"That way your employees don't need to collect as many receipts, and from a financial audit perspective I think that \$30 would be an acceptable threshold," she said.

### 7. Reimbursement process

The simplest way to enable employee spending is by issuing each individual a Float card, which has limits and flexible controls built into the card issuance so a finance team can set up a new intern with different spending power than a long serving Head of Marketing.

For companies not using Float, staff are often paying for business expenses from their personal credit cards, in which case, there needs to be a clear process for requesting and receiving reimbursement.

Your reimbursement policy should outline that process and make clear what kinds of information and supporting documents need to be submitted, to whom, and by when in order to receive compensation.





## 03—Key Components of an Expense Policy (cont.)

When it comes to determining a reasonable timeline for submitting expenses for reimbursement, McNamee says that sooner is always better, and shares guidelines from her roles in companies prior to joining Float.

“Because on the accounting side we’re trying to close the books every month, and we need to know what costs have been incurred,” McNamee says.

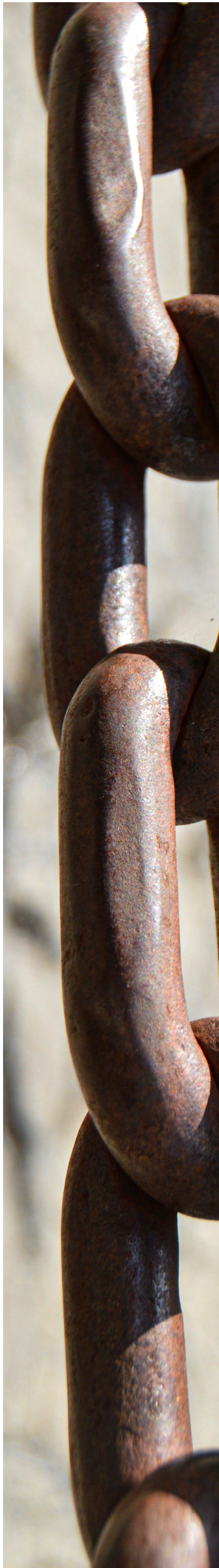
“If you run up \$10,000 on a personal card, we don’t have insight into that, and that trickles down into our forecasts and budgets.”

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### 8. Consequences of policy violations

For your expense policy to be taken seriously it needs to include a process for addressing violations. Having those consequences and disciplinary actions laid out in the policy not only communicates its seriousness, but also a degree of fairness, as everyone is subject to the same consequences. Some may want to include language that forgives occasional mistakes while cutting off privileges to repeat offenders, and even greater consequences for more serious infractions.

Float’s built-in controls can be configured to prevent unwanted spending - for example, finance can auto-pause an employee corporate card when the cardholder has failed to submit 3 receipts. Float can also be configured to block transactions with unauthorized merchants - for example gambling sites.







04

# Designing An Expense Policy

Anyone can cut and paste an expense policy from a premade template or ask ChatGPT to write one for them, but Oh of ThoughtExchange strongly believes that to be effective it needs to align with the company's unique culture, values, and priorities.

"In some sense you have to read the room," he says. "You want to be able to use the language or the words that the company uses in its vernacular or culture."

Oh adds that most expense policies address similar questions and offer similar guidelines, but the language they use, the degree of oversight, and specific rules and enforcement mechanisms — even keywords and language — should be customized.

"The principles around it will probably stay the same, but the flesh around the bones, that really needs to speak to people," he said.

"It's really about buy-in, about getting people to see the value in it, and if they don't it becomes a conflict, instead of a collaboration."

That is why Oh believes it's important to gather input from employees and other key stakeholders when crafting an expense policy.

"You've got to make sure that employees have some level of input into it, so they feel some sense of ownership over it," he advises. "You want to engage employees for sure — members of the management team, it's important to have them in there — and in a company of our size our board and investors are important too, because they have a number of similar portfolio companies, and they have an idea of how detailed it needs to be."





05

# Implementing and Communicating the Policy

Like the proverbial tree falling in the woods, if an expense policy lands in a crowded inbox, it doesn't really exist, because there's nobody around to read it. Rather than pushing out a policy and hoping someone takes notice it's worth spending some time considering a communication strategy that eliminates the possibility of staff pleading ignorance later on.

Specifically, there are three instances when finance needs to engage staff regarding their expense policy.

1. **During its initial creation and distribution**
2. **Following any updates or changes**
3. **While onboarding new staff members**





## 05—Designing an Expense Policy (cont.)

Oh still remembers when ThoughtExchange first rolled out their expense policy.

“When we introduced it to the company, we did it in a company wide meeting,” he said. “Then we got down to the management level, the people you want to be the guardians of that policy — the ‘expense approvers’ so to speak — and got them to understand the policy, then they disseminated it, with the help of finance and HR, to the rest of the company in smaller groups.”

McNamee of Float adds that, once implemented, the expense policy should be part of the training and onboarding process for new hires. “It should be an onboarding checklist item, reading the policy itself,” she said. “You can even create a walk-through video, if you think that’s helpful.”

Furthermore, McNamee says any changes — such as a pandemic that limits business travel, inflationary forces that require changing gas mileage reimbursement policies, or even just clarifying sections to answer common questions — should be disseminated in highly visible venues.

“People always want to know why we change things, so I have to explain myself a bit more,” she says. “Doing a big presentation on a change is really helpful, and then communicating through email, Slack, making sure everyone is aware of the change, that way there is no excuse for not knowing.”

“It should be an onboarding checklist item, reading the policy itself.”

“There should be an FAQ portion of the document that addresses the most frequently asked questions,” adds Lee of Humi. “But there should also be an open Slack channel or contact information to reach out to a finance member directly for help, with a 24-hour turnaround time, because some of the requests could be time sensitive.”







## 06

# Conclusion

Not every company needs an expense policy on day one, but most will reach a point early in their development when it becomes necessary to formalize certain processes. Finance professionals have a fiduciary duty to protect company assets, and once the company grows too large to manage and approve each individual expense manually, it becomes necessary to create a formal policy to guide business expenses.

Certain boilerplate elements should be included in any expense policy — like policy objectives, scope, documentation requirements, reimbursement processes, etc. — but it should also be tailored to the company's unique culture and values. Engaging staff with a more collaborative approach not only helps finance professionals stay true to that culture, but also helps ensure policy buy-in and ownership.

Expense policies are not stagnant and should evolve alongside the business and the broader economic landscape.

While annual checkups were once the standard the increasing velocity of change may make more frequent updates necessary.

Once a policy is crafted it's important to walk through it with staff members to ensure clarity and compliance, while providing an opportunity to address any questions or concerns. The same is also true of any significant changes that are made over time. Once adopted, expense policies should be included in the onboarding and training of each new additional employee.

Following these steps will ultimately allow finance professionals to uphold their fiduciary responsibility to protect company assets, provide operational clarity into how and where money is spent, and ensure staff members are clear on when and how they can spend company funds.





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