

# The Critical Role of Supporting Documentation in Expense Management



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Expense management is the process used for submission, review, approval, payment and analysis of expenses. Maintaining complete, accurate, and accessible supporting documentation is essential for demonstrating compliance with applicable laws and regulations, supporting financial transactions and informed decision-making, and ensuring accountability throughout the record lifecycle.

## Why Is Supporting Documentation Needed?

### Ensures accuracy and validates purpose

Supporting documentation verifies amounts recorded in the financial records, helping prevent errors and omissions. It also confirms that an expense serves a valid business purpose aligned with the organization's mission.

### Provides transparency

Supporting documentation makes information readily available for internal review and oversight of how funds are used.

### Mitigates fraud risk

Proper review and approval help to mitigate the risk of fraud. Because expense approval is a key internal control, it should be performed by a supervisor or manager with direct knowledge of the goods received or services performed for which the organization is being billed. By approving expenses, the approver represents that they have confirmed compliance with organizational policies.

### Facilitates audits

Independent auditors request supporting documentation to verify amounts and disclosures in financial statements. It also provides an audit trail for transactions and activities in the financial records. Government funders request supporting documentation to confirm that their funds were used appropriately.

### Supports financial reporting

Supporting documentation provides the details needed to code expenses to the general ledger using the organization's chart of accounts. The chart of accounts is the foundation for generating meaningful financial statements and reports.

## Requirements of Supporting Documentation

- Supporting documentation must be legible and clearly identify the expenses being reported. If this requirement is not met, the documentation should be returned to the expense submitter for correction and resubmission.
- A *Missing Receipt Affidavit* must be completed and signed by the employee if a receipt is lost or cannot be located. The affidavit should include the date the expense was incurred, vendor name, amount and business purpose. The affidavit must be signed by the employee acknowledging that it is a valid business expense incurred on behalf of the organization and that the receipt is no longer available.
- If the organization does not require supporting documentation for expenses below a minor threshold (e.g., \$25), a policy should be established and documented in the *Accounting Policies and Procedures Manual*.

## Examples of Supporting Documentation

Supporting documentation that should be retained in the following categories include, but are not limited to:

### Cash Disbursements

- Vendor invoices
- Consultant contracts
- Employee expense reimbursement reports
- Cancelled checks/electronic payment confirmations
- Bank and credit card statements

### Procurement

- Purchase requisitions
- Purchase orders
- Proof of delivery
- Vendor invoices
- Contracts

### Cash Receipts

- Bank statements and reports
- Bank deposit slips
- Donor letters received with contributions
- Funder payment confirmation

### Payroll

- Time sheets
- Electronic time and attendance reports
- New hire authorization forms
- Pay rate authorization forms

## Maintenance of Supporting Documentation

Paper documentation should be scanned and stored in a secure finance department shared drive accessible only to authorized personnel. Electronic files should be backed up appropriately. Many automated systems also allow documentation to be attached directly to the related transaction or vendor profile.

## Conclusion

Supporting documentation is essential for effective financial management. Complete, accurate, and approved records support reliable financial reporting, timely audits, and compliance with applicable laws and regulations.

Programs and departments across the organization must collaborate to submit and approve documentation for goods received and services performed within their direct knowledge.

Managers and supervisors should reinforce the importance of supporting documentation in staff meetings and required training workshops. Making it a priority helps sustain the organization, support growth, and successfully fulfill its mission.