

# HARVEY MUDD

## C O L L E G E

### Executive Summary Policy for Travel, Entertainment and Other Business Expenses February 2008

The College policy for travel, entertainment and other business expenses was last approved in 1999. In the intervening years, there have been significant changes in the way normal business activities are conducted, such as electronic airline tickets and internet purchasing. Additionally, many IRS regulations and accounting/auditing pronouncements relating to expense reimbursements and internal controls have been issued. To reflect current business practices, as well as to respond to requests for guidance from faculty and staff who travel on College-related business, an updated Policy for Travel, Entertainment and Other Business Expenses has been drafted. The new policy also addresses current IRS regulations, incorporates auditor recommended enhanced internal control procedures and is consistent with the new Board Approved Spending Authority Limitations Policy.

The following table **highlights** changes from the prior policy to the updated policy:

Provision	Prior Policy	Updated Policy
Travel: per diem for meals and incidentals	\$30/day flat rate or reimbursement of actual expenses for which receipts are provided	Preference for federal per diems - (e.g. Manhattan \$64/day – Phoenix \$59/day - Orlando \$49/day); days of travel at 75% of daily per diem (pg 4); reimbursement of actual expenses with receipts still allowed.
Receipts required for expenses > = Business purpose must be documented	\$25 Business purpose must be documented	\$75 (pg 3) Business purpose must be documented
Individual meals (dining alone) while not traveling overnight	Occasionally reimbursed	Not allowed by IRS. (pg 4)
Recording meals which include alcohol	Recorded as Travel or Entertainment	Record as Entertainment only in order to appropriately exclude from direct grant expenses, as such expenses are not permitted by federal regulations. (page 4-5)
Airline/hotel/ground transportation	Reimbursed with appropriate documentation	Clarifications on the use of electronic ticket documentation. (pg 3-4)
Reasonableness of travel expenses	Reasonable	Reasonable and not extravagant. (pg 2)
Equipment purchases	No provision	Departments to maintain equipment inventory. (pg 5)
Federal grant/contract purchases from vendors eligible to receive federal funds	No provision	Vendors for purchases/contracts of \$10K or more using federal grants must be verified as eligible to receive federal funds. (pg 5)
Approval of Expenditures >= \$25K	Currently all contracts and all Cabinet expense reports are approved by Treasurer's Office.	All expenditures should be approved by department chair and appropriate Vice-President (as applicable). Consistent with the provisions of the Board approved Spending Authority Limitations Policy, all expenditures including contracts of \$25K or more and vehicle acquisitions of any amount should also be approved by Treasurer's Office. (pg 1)
Purchasing gifts with College funds	No provision	Gifts to 3 <sup>rd</sup> parties require business purpose documentation; no contributions to other 501(c)(3) organizations unless approved by President's Cabinet and in fulfillment of HMC's exempt purpose (required by IRC), gifts to employees defined. (pg 5)

**HARVEY MUDD COLLEGE**  
**POLICY FOR**  
**TRAVEL, ENTERTAINMENT AND OTHER BUSINESS EXPENSES**

**Policy Statement**

Where allowable under IRS guidelines, Harvey Mudd College (the College) will reimburse an employee for, or pay directly to a College vendor, or pay via College purchase card, actual College-related travel, entertainment or other business related expenditures that are necessary in the performance of his/her assigned responsibilities.

**IRS Guidance**

To qualify for tax-free reimbursement of business expenses, the Internal Revenue Service (IRS) requires all of the following conditions be met:

- The employee must have paid or incurred *deductible* expenses while performing services as an employee of the College.
- The employee must adequately account to the College for expenses within a reasonable period of time.
- The employee must return any excess reimbursement or allowance within a reasonable period of time.

**Guiding Principles**

- The IRS does not allow for tax-free reimbursement of lavish or extravagant expenses. Employees are expected to use prudent judgment and ensure all expenses submitted for reimbursement are reasonable based on the facts and circumstances.
- Employees should verify that sufficient budget funds are available in advance of any purchase by reviewing account information online via CUConnect (<http://www.cuc.claremont.edu/cucfs/asp/Site/cuconnect/login/index.asp>), or by contacting a department supervisor or the Business Affairs Office. Reimbursement requests in excess of budget funds available may not be reimbursed.
- The College-related business purpose of all expenses submitted for reimbursement should be thoroughly documented. Reimbursement requests submitted with insufficient documentation of the College-related business purpose may be returned to the employee who is requesting reimbursement.
- Reimbursement requests should be submitted within **30 days** of when the expense was incurred or return from travel. Requests submitted beyond **30 days** may not be reimbursed. Due to IRS requirements, any expense reimbursement granted beyond **60 days** of when the expense was incurred or return from travel will be added to the employee's taxable income and is subject to applicable taxes/withholdings (or in the case of non-employees, reported as miscellaneous income on IRS form 1099).
- Unless otherwise noted below, original actual receipts are required for reimbursement.
- In some cases, failure to follow IRS regulations may result in significant IRS penalties to both the employee and the College.

**Authorization**

Employee expense reimbursement requests or expenditure requests less than \$25,000, unless the expenditure is to purchase a vehicle, should be approved by the appropriate department chair, director or other authorized supervisor. All expenses incurred by a department chair or director should be approved by the respective Vice President, and those expenses incurred by a Vice President, other members of the President's Cabinet, or the President should be approved by the Treasurer. The expenses of the Treasurer should be approved by the President. The President's expenses are presented to the Board of Trustees (Chair of the Board or a designated Audit Committee member) for his/her review on a quarterly basis. Consistent with the Board Approved Spending Authority Limitations Policy, any expenditure of \$25,000 or more should **also** be approved by the Treasurer's Office prior to submitting documentation to the Office of Financial Services. This policy applies to all payment approaches (e.g. request for check, purchase requisition (PO) and purchase cards).

Contracts and agreements of \$25,000 or more and any vehicle purchase agreement (to ensure timely update to insurance coverage) should be signed by the Treasurer.

**Authorization Responsibilities**

It is the responsibility of those approving reimbursement to ensure that:

- expenses are incurred for the benefit of or are in the interest of the College;
- expenses are reasonable, **are not extravagant**, and are incurred as outlined in this Policy;
- the business purpose of each expenditure is clearly documented;
- documentation is complete, with **original receipts** (over \$75), to include the name and business relationship for each person entertained and the nature of the business discussion, meeting, etc., resulting in the reimbursable expense;
- reimbursement claims are submitted no later than 30 days of when expense was incurred; and
- are allowable under grant awards (if applicable).

### **Reimbursable Expenses**

***Traveling Away from Home:*** According to the IRS (Publication 463), an employee meets the IRS definition of traveling if the employee's duties require the employee to be away from the general area of his/her tax home substantially longer than an ordinary day's work, **AND** the employee needs to sleep or rest to meet the demands of the employee's work while away from home. Certain categories, as identified below, require that employees meet the IRS definition of *traveling* to be eligible for reimbursement. In general, the mode of transportation used should be the most economical one suitable for the purpose of the trip.

***Airline:*** The College will reimburse coach/economy airfares. Original receipts should be provided. For ticket-less travel, the printout of the internet confirmation should be provided. **Additionally, documentation that demonstrates the trip took place should also be provided (e.g. boarding pass, rental car receipt, lodging receipt).** Frequent flier mileage accrues to the employee. The College does not provide reimbursement for frequent flyer miles used for business purposes.

***Personal Automobile:*** The College will reimburse employees for mileage when a personal vehicle is used on official College-related business that is properly authorized, reasonable and appropriately documented. This does not include mileage for an employee's standard commute when traveling between their residence and the College. The College will reimburse employees at the IRS mileage allowance in effect on the date of travel. The current standard mileage rate can be found on the IRS website using the following link: <http://www.irs.gov/taxpros/article/0,,id=156624,00.html>

In the event a private vehicle is used in lieu of commercial transportation (air, bus, rail), the lesser of the costs between a coach/economy class ticket combined with other related ground transportation and the mileage will be reimbursed. The College will not reimburse vehicle operating, maintenance or repair costs for personal vehicles (the IRS mileage rate is intended to incorporate these types of costs). **Employees should contact the Human Resources Office (extension 79700) prior to a trip to ensure they are on the College's Approved Drivers List.** The employee's personal automobile liability insurance is the primary coverage when using a personal vehicle on College-related business.

***College-Owned Vehicles (including electric carts):*** These vehicles are subject to additional rules pertaining to use. Gasoline purchases with receipts are reimbursable, but mileage is not. **Employees should ensure they are on the College's Approved Drivers List prior to operating a College-owned vehicle. Approved Drivers List information is available by calling the Human Resources Office (extension 79700).**

***Rental Vehicles:*** Employees may rent a vehicle when driving is more convenient than airline or rail travel; driving is necessary to transport large or bulky materials; driving is more economical than public transportation modes due to multiple locations to visit in the destination city; or other surface transportation is not practical. **Employees should ensure that they are on the College's Approved Drivers List prior to renting a vehicle. Approved Drivers List information is available by calling the Human Resources Office (extension 79700).**

***Rental Vehicle Insurance Coverage:*** The College's automotive insurance policy provides primary liability coverage (or secondary coverage behind the rental car company in certain states). It is not necessary for employees to purchase additional liability insurance from the rental car company. Comprehensive and collision losses (damage to rental car) are not covered by the College's automotive insurance policy. When the Wells Fargo - WellsOne College purchase card is used to rent a vehicle, it provides primary comprehensive and collision coverage on the rental vehicle. Thus, employees are encouraged to use a WellsOne College purchase card for rental vehicle purposes, when available. Employees not using a WellsOne College purchase card should purchase comprehensive and collision coverage from the rental car company when renting a vehicle. Employees not on the Authorized Drivers List expose their personal liability insurance to primary insurance coverage status.

***Other Insurance Issues Pertaining to Personal and College Owned Vehicles:*** Additional information can be found at <http://www.hmc.edu/about/administrativeoffices/bao1/formsandpolicies.html>

***Ground Transportation, Parking Fees & Toll Charges:*** Preferred choices for ground transportation are shuttle service, public limousine service, or other forms of public transportation. Travelers should use their best judgment in choosing ground transportation. Taxi fares require a receipt for reimbursement. Tolls and reasonable parking costs are reimbursable with a receipt.

**Lodging:** The College will reimburse lodging accommodations for employees traveling on College business. Prudent judgment should be used when selecting lodging accommodations. The original copy of the detailed hotel folio is required as substantiation for reimbursement.

**Telephone:** The College will reimburse reasonable expenses incurred for telephone, fax, and teleconference for business communications for employees traveling on College-related business. Employees who receive a cell phone allowance are expected to use their personal cell phone to the extent possible.

**Personal Meals while Traveling:** Personal meals are meal expenses incurred by an individual **dining alone while traveling overnight** on College business. The College will either reimburse actual expenses or provide a per diem allowance for meal and incidental expenses for employees traveling on College-related business based on the guidance below. Employees can choose either method. **However, the IRS requires consistent application of the per diem method within a day.** Thus, an employee may not choose to use both the per diem and actual receipt methods for the same travel day.

**Actual Expenses:** The College will reimburse reasonable expenses incurred for meals when traveling on College-related business. The amounts requested may not be considered extravagant; an employee should speak with his/her supervisor if there are questions as to the extravagance of any reimbursement request. If two or more employees are dining together while traveling and one employee pays the bill, they must seek reimbursement for all meals that day based on actual costs (due to IRS requirements for consistent application of the per diem method each day). If one employee pays the bill for all diners, the non-paying employees can only request per diem reimbursement on meals for which they paid, using the allocation of the daily per diem based on the GSA schedule as published at [www.gsa.gov/mie](http://www.gsa.gov/mie). As an alternative, employees may seek full reimbursement according to the per diem rates if they split the bill or reimburse the paying employee themselves.

**Per Diem Allowance:** In lieu of submitting actual receipts for meal and incidental (M&I) expenses while traveling, employees may request daily reimbursement at the approved federal per diem M&I rate established by the Internal Revenue Service for each day while traveling on College-related business. **The reimbursement allowed for the first and last day of travel is limited to 75% of the daily rate, as prescribed by the IRS. Employees are required to reduce their daily per diem reimbursement request for meals provided by another source (i.e. meals included at a conference, provided by another individual, etc.)** using the allocation of the daily per diem based on the GSA schedule as published at [www.gsa.gov/mie](http://www.gsa.gov/mie). No receipts are required when requesting reimbursement under the per diem allowance.

**Approved Per Diem Rates:**

The M&I per diem rates differ by travel location. Please visit [www.gsa.gov/perdiem](http://www.gsa.gov/perdiem) to view the current M&I per diem rates by travel location. An updated table for subsequent years is available at [www.gsa.gov/mie](http://www.gsa.gov/mie). Foreign travel per diem will be reimbursed at the rates stated within the State Department's website in lieu of original receipts. Foreign per diem rates can be obtained at [http://aoprals.state.gov/web920/per\\_diem.asp](http://aoprals.state.gov/web920/per_diem.asp)

**Business Meals and Entertainment Expenses:**

As defined by IRS regulations, entertainment expenses include any activity that provides amusement, entertainment, or recreation and **includes meals**, in which the main purpose is to promote or provide future College benefit. In general, a written statement of the amount, time, place/description, business purpose/benefit gained or expected to be gained and business relationship needs to be documented and attached to the receipt(s). Business relationship includes the occupation, name, title, or other description about the recipient. Both a detailed statement displaying all items ordered and evidence of payment in the form of a credit card sales draft and cash register receipt should be provided.

Note that individual meals (dining alone) can only be reimbursed if the meal is incurred while traveling (spending the night) based on IRS guidelines. **In other words, dining alone while not traveling (spending the night) does not constitute a reimbursable business and entertainment expense per IRS guidelines.**

**Purchase of Alcohol**

It is important to remember that federal regulations consider all entertainment costs (including meals at which alcohol is purchased) as unallowable for either direct grant expenses or in calculating the facilities and administrative overhead rate that is negotiated with the federal government for indirect cost recovery on federal grants/contracts. **In order for the College to calculate the correct administrative overhead rate, please record all meal purchases, which include alcohol, as "entertainment"** regardless of whether the meal is a travel meal or business meal.

**Other College Expenses:**

Procurement of goods and/or services may be obtained through the various options, including, a request for check or the use of the College's purchase card program. Instructions and forms can be obtained from the following websites: <http://www.hmc.edu/about/administrativeoffices/bao1/formsandpolicies.html> and <http://www.cuc.claremont.edu/cucfs/asp/Site/resources/index.asp>.

Business related expenses (goods or services) incurred for the benefit of or in the interest of the College should be approved by the appropriate department chair, director, principal investigator, or other authorized supervisor prior to ordering.

**Payment for services should always be made directly by the College to the service provider.**

***Federal Grant Expenditures over \$10,000:***

When purchases of \$10,000 or more are made using federal funds under an active grant account, the Principal Investigator must ensure that the vendor selected for providing goods or services for the grant is not suspended or debarred from receiving federally sourced funds and must provide proof of verification. The listing of Excluded Parties may be found at <http://epls.arnet.gov/>. ***This requirement is not optional and proof of verification consists of printing a screen shot of the web page when the search is performed before the order is placed.***

It is the College's policy that all business expenses, including research grants and contracts transactions, adhere to all applicable federal, State, or other governmental regulations in effect at the time of the transaction.

All business expenses must be supported by sufficient documentation, including an explanation of the business purpose.

***Equipment Purchases-Asset Inventory***

The College recommends that each equipment purchase costing \$5,000 or more be inventoried in each department's records for both insurance and auditing purposes – **an equipment asset inventory is required for any equipment costing \$5,000 or more that is purchased with federal funds.** Maintaining an inventory of equipment assets is valuable in the event an insurance claim needs to be filed due to theft or damage to College equipment. Equipment inventory records should include the date of purchase, amount of purchase (including sales tax, delivery charges and/or installation costs), physical location of equipment (building and room number), the model/serial number of the equipment, the account number(s) charged for the purchase (if purchased with a grant, the name of the grant and Principal Investigator is required), and a unique departmental ID tag number (this should also be attached to the equipment). All documentation of equipment purchases on the inventory log must be kept until the disposal of the equipment. Please contact the Business Affairs Office when disposing of College equipment (either capitalized or non-capitalized) for proper accounting. If disposal consists of selling the equipment, sales tax may apply.

Each department is responsible for annually verifying and updating its own equipment inventory records. A copy of the department equipment inventory record should be submitted annually to the Business Affairs Office as part of the year-end closing process. This documentation will enable the College to comply with the federal audit requirements.

***Gifts:***

Gifts to third parties - As required by the IRS, the following information should be provided for gift expenses: the cost of each separate expense/gift, the date of gift, a description of the gift, the business purpose. The College does not make contributions to other institutions in lieu of speaker fees or for other services provided to HMC. Additionally, IRS regulations do not allow for the College to contribute to other 501(c)(3) organizations unless the organization also fulfills HMC's 501(c)(3) purpose. Gifts to other 501(c)(3) organizations need to be approved by the President's Cabinet.

Gifts to employees must qualify as a de minimis benefit\* in order to be processed through the accounts payable system. If the gift does not qualify as a de minimis benefit or is paid to an employee in the form of cash (**this includes gift certificates/cards of any dollar amount**), **the value of the gift must be processed as a wage/tax adjustment in the payroll system.** The Human Resources Office should be contacted for assistance when giving gifts to employees. Gifts to student employees provided in relation to their employment service are subject to the requirements above.

\* *A De Minimis benefit is defined by the IRS as "any property or service you provide to an employee that has so little value (taking into account how frequently you provide similar benefits to your employees) that accounting for it would be unreasonable or administratively impracticable."*

**Non-Reimbursable Expenses**

As noted above, expenses must be reasonable and have a legitimate College-related business connection – that is, the individual must have paid or incurred *deductible* expenses while performing services as an employee of the College. The following is a list of examples of non-reimbursable expenses; this list is not all-inclusive/exhaustive:

***Day-To-Day Expenses:***

- personal vehicle expenses (e.g., car washes, maintenance, fuel, etc.)
- traffic or parking violations
- library fines
- lost or damaged personal items (e.g., cell phone, PDA, briefcase, calculator, computer, etc.)

### ***Travel:***

- additional expenses of a spouse or person accompanying an employee while traveling – unless approved by the Chairman of the Board for the President and the President or VP for Administration for all other travelers - for business related travel – approvals must be obtained prior to the trip
- babysitting fees
- travel insurance, limited exceptions with President's or Treasurer's approval
- airline class upgrades
- memberships, clubs, or organizations (e.g., vehicle, airline, fitness, discount retailers, etc.) – unless approved by the President or the Chairman of the Board of Trustees
- kennel costs for pets
- lost or damaged personal items (e.g., cell phone, PDA, briefcase, calculator, computer, etc.)
- medical expenses (e.g., co-pays, prescription or over-the-counter medications, etc.)
- personal vehicle expenses (e.g., car washes, maintenance, fuel, etc.)
- traffic or parking violations
- sightseeing or other personal side trips
- personal care items (e.g., toiletries or haircuts/styling, etc.)
- personal entertainment (e.g., books, magazines, newspapers, hotel room movies, sporting events, etc.)
- mileage for travel between personal residence and the College
- laundry services on trips less than four consecutive business days
- expenses that have been, or will be, reimbursed to the employee by another organization

### **Travel Reports**

A travel expense report will be required for reimbursement of all expenditures incurred for overnight travel by faculty or staff and/or to clear a travel advance or prepaid expense for a faculty or staff member. The purpose of the travel report is to document all expenses associated with a trip regardless of whether trip expenses were paid by the College or the employee directly. Please note that receipts for airline tickets purchased for an approved trip well in advance of the trip in order to obtain the best possible airfare should be submitted for reimbursement before the 60-day timeliness threshold expires, even though the trip may not yet have been taken. The travel report must be completed within 30 days of completing a trip and must be submitted regardless of method of payment of expenses (purchase or credit card, purchase order, petty cash); if not submitted within 60 days of when the expenses were incurred for the trip, the reimbursement becomes taxable to the traveler. Limited exceptions to this requirement may be allowed (e.g. for faculty on sabbatical when requested by the faculty member prior to the start of sabbatical leave). Exception requests from the Academic Departments should be made in writing (e-mail is acceptable) to the Dean of the Faculty who will coordinate the exception requests with the Business Affairs Office. Exception requests from Administrative Departments should be made in writing (email is acceptable) to the appropriate Cabinet member who will then coordinate the exception request with the Business Affairs Office. A travel report is not required if all travel expenses were incurred by use of a College purchase card. In this case, the required travel information will be included in the purchase card form and submitted with the purchase card statement as outlined in the purchase card policy statement. Travel reports are available from the College's general ledger accountant in the Office of Financial Services, or from the HMC Business Affairs Office.

### **Travel Advances**

An employee may request a travel advance to cover the anticipated expenses of travel no more than 30 days prior to commencement of the trip. Advances will only be made after travel is approved and will be based on a reasonable estimate of expenses to be incurred. To avoid being taxable, an advance needs to be cleared within 60 days of return. Holdover of advance monies from one trip to the next cannot be allowed. Advances will be reconciled with the travel report for each individual trip. Further advances cannot be granted until the outstanding advance is cleared. In case of postponement or cancellation of the trip, the traveler should promptly refund the advance. Airline tickets purchased may be reimbursed as a prepaid expense when early ticket purchases are made well in advance of an approved trip in order to obtain the best fare possible. The prepaid expense should be noted on the travel report along with a copy of the original invoice/itinerary that was submitted in order to record the expense to the appropriate account.

### **Home Office or Home Deliveries**

Materials purchased with College funds or to be reimbursed by the College should be delivered to a College address. In the event this is not feasible (e.g. College-provided furniture for a home office), prior approval should be obtained from an appropriate supervisor and the transaction coordinated with the Business Affairs Office to ensure grant reporting requirements and taxability issues are addressed.

### **College Purchase Cards**

The provisions of this policy (e.g. reasonable period, adequate documentation, etc) are applicable to reimbursement of expenses made directly to an employee or paid via College purchase card.