

California Institute of Technology
BUSINESS EXPENSE GUIDELINES

Office of Financial Services
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Contents

1. Introduction	3
2. Code of Conduct	4
3. Cost Basics	5
4. Authorizing Expenditures	9
5. Other Business Expense Policies and Procedures	13
Reference	
Cost Principles for Federally-Sponsored Contracts and Grants at Educational Institutions.	
<i>OMB Circular A-21: General Provisions for Allowability of Selected Items of Cost.</i> ¹	

<http://www.whitehouse.gov/omb/circulars/a021/a021.html>

¹ As of March 2003, the Office of Management and Budget is reviewing changes in all three OMB circulars on cost principles (A-21, A-122, and A-87) to simplify and improve consistency among the documents. Some policies may change as a result of this process.

1. Introduction

These guidelines are intended for anyone within the Caltech community—faculty, students, and staff—who conducts business on behalf of the Institute.

The guidelines bring together in a formal way the best standards of business conduct as currently practiced at the California Institute of Technology. There is some variation across campus, and there will continue to be differences. However, these guidelines set the basic standard upon which individual divisions and departments develop specific procedures and practices.

The guidelines are intentionally broad. Every instance and question that may arise about allowability or advisability cannot be foreseen. Over time, they may expand or contract as we live with them. Your comments and suggestions are welcome.²

² Comments and suggestions may be submitted to the Office of the Controller, mail code 229-15.

2. Code of Conduct

As a basic tenet of doing business at Caltech, members of the Caltech community have a responsibility to the government, donors, sponsors, parents, and students to use funds legally, prudently, ethically, and for the purposes for which they are designated. Business activities undertaken on behalf of Caltech must reflect the highest standards of honesty, integrity, and fairness. Each of us must take care to avoid even the appearance of misconduct or impropriety.

3. Cost Basics

Business Expenses.

Caltech will directly pay or will reimburse properly substantiated business expenses. “Business expenses” are (1) reasonable and necessary for Institute purposes, (2) consistent with Caltech policies and practices, and (3) compliant with applicable laws and regulations. A “necessary and reasonable” expense is one for which a clear business reason exists and for which the cost is not excessive.

Personal expenses will not be reimbursed or paid, except in extraordinary cases, subject to approval by the Controller. In some cases, exceptions must be reported as income on the employee’s W-2, in accordance with Internal Revenue Service regulations.

The distinction between a business expense and a personal expense can be difficult to make. For example, the purchase of a cell phone and the monthly service cost of the cell phone are generally personal expenses, although any business calls on that cell phone may be charged to the Institute account for which that is an allowable expense. In an exceptional circumstance, the cell phone and the monthly service might be necessary for business purposes. Then, of course, the phone is the property of the Institute.

If the distinction between a business expense and a personal expense remains in doubt, the case should be referred to the Office of the Controller.

In order to promote good business practices, Caltech complies with the IRS “accountable plan” rules related to business expenses.³ That is, the Institute’s guidelines for distinguishing business expenses include these essential elements:

1. Expenses must serve a legitimate business purpose or connection.
2. Expenses must be supported by adequate explanation and documentation.
3. Advances in excess of substantiated expenses must be returned to the Institute within a reasonable period of time.

³ The employer’s policies and procedures about business expenses must meet the IRS tests for an “accountable plan” in order for certain reimbursed expenses to be excluded from the employee’s gross income.

Types of Funds

Colleges and universities typically organize accounts in accordance with the source of funding and the function to be supported. A basic rule of charging expenses to an account is that the expense must be related to the account's function and must honor the terms of the funding source. Here are the major fund types and some constraints on what can be charged to them.

Sponsored research. At Caltech, the largest source of operating revenues is the federal government in support of the direct and indirect costs of research. We have the extra responsibility here to ensure compliance with the terms of the individual sponsored contract or grant and the principles of the Office of Management and Budget Circular (OMB) A-21. The OMB A-21 provisions for allowability of selected cost items are included as an Appendix. A useful reference for agency policies and federal guidelines is the website of the Office of Sponsored Research (<http://osr.caltech.edu/policies.htm>).

Direct costs charged to a federal/non-federal sponsored research award must be "allowable," "allocable," "reasonable," and "consistently treated" under the A-21 cost principles. Below are definitions of key attributes of costs that are reimbursable by the federal government.

- *Allowable costs.* Costs are allowable or not allowable as specified by government regulations. Staff and faculty who administer sponsored project accounts have traditionally thought of "allowability" in the context of direct costs, that is, whether those costs are allowable under the specific terms of the grant or contract. That is one very important meaning of allowability. However, the concept of allowability applies also to costs that are indirectly related to sponsored projects. Staff and faculty who manage general budget accounts, gift accounts, and any other non-federal account must also be careful to distinguish unallowable costs. Note that these expenses may be permitted under Institute policy and may be entirely valid and appropriate, it is just that the federal government will not allow us to claim them as direct or indirect costs of federally sponsored projects. Because we cannot claim these costs, we must record them in such a way to be sure that they are not charged directly to a federal government account and that they do not fall into one of the pools of indirect costs that are reimbursed.
 - Certain activities are specifically unallowable. Examples include lobbying, organized fund raising, student clubs, and housing and personal living expenses of senior administrators. All expenses in support of these activities are unallowable. Unallowable activities are generally recorded in separate accounts specifically designated for these purposes. The federal government will not reimburse

these costs, although they may be appropriate Institute expenses on non-federal accounts.

- In addition to these activities, certain costs are always unallowable, regardless of the activity they support. Examples include entertainment, alcoholic beverages, first class travel, and fines and penalties. These costs are unallowable by expenditure type and are typically recorded in expenditure codes that segregate these costs from allowable costs.
- *Allocable costs.* A cost is allocable if it can be assigned to the activity on some reasonable basis. A cost is allocable to a sponsored agreement if (1) it is incurred solely to advance the work under the sponsored agreement or (2) it benefits both the sponsored agreement and other work of the institution, in proportions that can be reasonably estimated. A cost is allocable for purposes of indirect cost recovery if it is necessary to the overall operation of the institution and can be assigned in part to sponsored projects.
- *Reasonable costs.* A cost is reasonable if a prudent person would have purchased this item and paid this price. Major considerations are: (a) whether the cost is necessary for the operation of the institution or the performance of the sponsored agreement; (b) whether the cost meets the restraints or requirements imposed by such factors as arm's-length bargaining, federal and state laws and regulations, and sponsored agreement terms and conditions; (c) whether the individuals acted prudently, considering their responsibilities to the institution, its employees, its students, the federal government, and the public at large; and (d) to what extent the individuals acted in accordance with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements.
- *Consistency in allocating costs incurred for the same purpose.* Costs incurred for the same purpose in like circumstances must be treated the same. This is particularly important in classifying expenses as either direct or indirect costs.

Gifts, private grants and endowment income. Another revenue source is donors (individuals, corporations, foundations, or trusts) who usually make contributions in support of particular programs. Examples are an endowed chair to support a professor, a scholarship or fellowship to support undergraduate or graduate students, or contributions for capital projects. Caltech is subject to the terms and conditions set forth by donors. Occasionally contributions are received without restrictions, and these usually become part of the general budget.

Other funds. Sources include tuition and fees, reimbursement of facilities and administrative costs (indirect costs), and contributions without donor restriction.

These revenues are the primary unrestricted funds that support Caltech's operations and facilities costs. Most unrestricted funds are managed in general budget accounts, although some may be designated within the Institute for special purposes. An example of internally designated funds is the Provost's facilities renewal program.

What are "discretionary" funds? Many Institute accounts are designated for specific purposes like research sponsored by the federal government or scholarships and fellowships supported by gifts, private grants or endowment income. The term "discretionary" is often used to distinguish accounts that are not designated for a fairly specific purpose. The implication is that for these relatively unrestricted funds many expenses are appropriate at the discretion of the account holder. It should be clear, however, that only expenses serving a legitimate business purpose are an appropriate use of any kind of Institute funds.

Here is an example. A professor's office is being refurbished and the division has allocated \$10,000 from its general budget account for furnishings (desk, chair, bookcases, etc.). The professor would like to upgrade the bookcase; he charges the extra cost to his discretionary account. The bookcase serves a legitimate business purpose, and its total cost is an appropriate use of Institute funds. However, the cost exceeds what is available within the priorities of the division's general budget, and in this case the discretionary account has sufficient funds to absorb the difference.

How unrestricted is "unrestricted"? All Institute funds are restricted to the work of the Institute: research, instruction, and related activities. Funds not restricted by outside sponsors or donors may still be set aside and designated for particular purposes by the Institute. Here are some examples.

- Research Pool accounts. The Provost has authorized funds to support the research of faculty who allocate a percentage of their salary to sponsored research. Allowable expenses on these pool accounts must support the faculty member's research.
- Gift accounts that are loosely restricted for research in a particular discipline. Here too the constraint is to support the research program of the department. There may be broad interpretation (for example, an honorarium for a guest speaker lecturing on a research-related topic, or travel expenses for recruiting graduate students or postdocs in the discipline). But expenses that appear to be personal should be justified in writing and approved at the division level.
- Other Activity accounts. These may include conferences, sales and service programs, commercial receivables activities, internal collaborations, and internally designated funds. Expenditures are restricted to the special purposes for which the account was established.

4. Authorizing Expenditures

Both the person who incurs the expense and the person who authorizes the use of a particular funding source are responsible for ensuring maximum practical economy for a reasonable business purpose.

Any expense must first be tested against Caltech's Business Expense Guidelines. Then, if the expense is being charged to a sponsored project, the expense must comply with the terms and conditions of the award and with the applicable provisions of OMB Circular A-21. Costs incurred directly or indirectly in support of federal research should be "allowable, "allocable," "reasonable," and "consistently treated." See discussion above (pages 6-7).

Costs that are "unallowable" for sponsored research funds may still be allowable for gift and unrestricted funds so long as they represent reasonable and necessary Institute expenses. For example, honoraria are generally unallowable on contracts and grants, but are both necessary and reasonable on many other accounts. Reasonable expenses for improvement of working conditions, employer-employee relations, and employee performance are appropriate and allowable if they satisfy the terms of the account function.

A division or department may choose to set more specific spending policies for its faculty and staff. The stricter ruling has precedence.

The flowchart below outlines the process of authorizing expenditures.

BUSINESS EXPENSE FLOWCHART



The following is a sample of expenses that require special attention and may be unallowable in some or all circumstances:

- Dues, membership fees, subscriptions
 - Must serve the instruction, research and related objectives of the Institute.
 - For individuals, must support the person's job-related responsibilities.
 - In general, dues and subscriptions related to business, technical and professional organizations should not be charged to federal awards, although these costs may be appropriate on other Institute accounts and may be allowable for purposes of indirect cost recovery. Refer to A-21 guidelines or Project Accounting.
 - Membership fees for private clubs or social organizations should not be charged to federal awards and are generally not allowable on any Institute account. Exceptions must be approved at the appropriate level.
- Traffic or parking citations for either personal or Institute vehicles
 - Arising from an infraction of the law, these fines have no business purpose and are not allowable on any Institute account.
- Parking permits for Caltech employees and students.
 - Unallowable on any Institute account.
- Purchase of property solely for personal use.⁴
 - Unallowable on any Institute account.
- Political contributions
 - Unallowable on any Institute account.
- Child care
 - Unallowable on any Institute account.
- Gifts to other non-profit organizations and charities
 - Must be made on behalf of Caltech.
 - Must benefit the Institute, promote good will, or otherwise fulfill Caltech's role as a good member of the community.
 - Must be approved by the Provost or Vice President for Business and Finance.
 - Not allowable on federal grants and contracts.
- Costs associated with personal telephones, other than cell phones

⁴ The occasional personal use of Institute property may be appropriate in some circumstances. When in doubt, the case should be referred to the Office of the Controller, mail code 229-15.

- Generally unallowable, except for toll calls made in the conduct of business.
 - Exceptions must be approved at the appropriate level.
- Costs associated with internet connections at home
 - Generally unallowable, except when expenditure is essential to the employee's on-going functions in support of the Institute.
 - Exceptions must be approved at the appropriate level.
- Purchase or upgrade of home computer for compatibility with office equipment
 - Generally unallowable, except when expenditure is essential to the employee's on-going functions in support of the Institute.
 - Exceptions must be approved at the appropriate level.
- Purchase and installation of cell phones
 - Allowable with demonstrated significant business need.
 - Must be approved at the appropriate level.
 - Note: Cell phones purchased with Institute funds are the property of the Institute

In many cases the issue of determining whether a particular cost is allowable or unallowable is a complex matter. When in doubt, consult with your local financial administrator or the Office of the Controller.

Exceptions to what is an unallowable expenditure of Institute funds may be approved by the President, Provost, Vice President for Business and Finance, Vice President for Development and Alumni Relations, Vice President for Public Relations, Vice President for Student Affairs, and Chairs of Divisions, or their designees.

5. Other Business Expense Policies and Procedures

Because they represent distinct and often problematic expense types, separate guidelines are needed for certain other costs, including travel, relocation, and entertainment. Here is a list of related policies.

- Travel Policy --
<http://procurement.caltech.edu/payment/TravelPolicy/travelpolicy.pdf>
- Relocation Expenses -- *for a published copy, please contact Dlorah Gonzales at 626/395-8661 or email dlorah.gonzales@caltech.edu*
- Business Expense Guidelines: Entertainment --
http://finance.caltech.edu/policies/cit_entertainment_guideline.pdf
- Signature Authority, as delegated by the Board of Trustees --
<http://procurement.caltech.edu/purchasing/signatureauthority.pdf>
- Petty Cash --
http://finance.caltech.edu/Petty_Cash_Funds_Procedures.pdf
- Purchasing Policies & Procedures Manual --
<http://procurement.caltech.edu/purchasing/PurchasingPolicy.pdf>
- Manual and Electronic Requisition Procedures (contained within the Purchasing Policies & Procedures Manual, Pages 18-36) --
<http://procurement.caltech.edu/purchasing/PurchasingPolicy.pdf>
- Procurement Card (P-Card) Program Procedures -- *For a published copy, please contact Criselda Rodriguez-Brodeur at 626/395-6283 or email PcardServices@caltech.edu*
- Fabrication Policy -- <http://finance.caltech.edu/fabrications.pdf>
- Cost Transfer Policy -- http://finance.caltech.edu/pa_policies.htm
- Payments to Non-Resident Aliens --
http://finance.caltech.edu/policies/policy_tax.pdf