

California Institute of Technology
BUSINESS EXPENSE GUIDELINES:
ENTERTAINMENT

Office of Financial Services

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 Publication 463, Travel, Entertainment, Gift and Car Expenses

Office of Management and Budget (OMB) Circular A-21, Cost Principles for Educational Institutions

1. Purpose

There are occasions when the judicious extension of hospitality in connection with official Institute business is in the best interest of the Institute. This policy addresses the manner and extent to which the Institute may extend hospitality for business purposes only, provides approval levels, and specifies the Institute funds that may be used for such purposes.

The objective of this policy is to promote discretion and moderation in spending and in expenses related to business meals, entertainment, and social events. The divisions and departments have primary responsibility for ensuring compliance with the spirit and letter of these guidelines, and they have the option to establish more restrictive procedures for ensuring that compliance.

As a basic tenet of doing business (including business entertainment) 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. All entertainment activities undertaken on behalf of Caltech must reflect the highest standards of honesty, integrity, and fairness. Each of us must take care to avoid the appearance of misconduct or impropriety.

2. Scope

These guidelines are directed to anyone within the Caltech community – faculty, students and staff – who conducts business on behalf of the Institute. They do not apply to the Jet Propulsion Laboratory.

3. Definitions

- **Business Entertainment** - the provision of meals or light refreshments, meeting space, or other miscellaneous expenses deemed reasonable by the division or department in order to conduct business to the benefit of the Institute.
- **Official Host** - an employee representing the Institute who hosts a meeting, conference, or event.
- **Official Guest** - a person who renders a service to the Institute or is present at an Institute meeting, conference, or event at the invitation of the person authorized to host the activity, including Caltech employees from another work location.

- **Approving Authority** - a person to whom authority has been delegated to approve entertainment expenses in accordance with all Institute policies and the limitations outlined in these guidelines.

4. Institute Guidelines

A. Allowable Expenses and Occasions

Expenses for entertainment must be directly related to, or associated with, the active conduct of official Institute business. When an Institute employee acts as an official host, the occasion must, in the best judgment of the approving authority, serve a clear Institute business purpose, with no monetary or other substantial personal benefit derived by the official host or other Institute employees. In addition, the expenditure of funds for entertainment should be cost effective and appropriate. The division or department hosting the event should determine the maximum allowable costs per person for entertainment expenses, within Institute limits (see Section 4. B. Approval of Transactions).

These guidelines are intended to conform to the Internal Revenue Service regulations related to entertainment expenses. Accordingly, any payment made to an employee in connection with entertainment should only be for the reimbursement of costs incurred, and should not result in any taxable income for the employee. (See Section 4.e. for more details)

The following are examples of situations that meet these criteria:

- **Host to Official Guests**

When the Institute is host to official guests, including but not limited to visitors from other universities, members of the community, Institute employees visiting from another work location, etc., the cost of meals or light refreshments may be reimbursed. In addition, such costs may be reimbursed for prospective students or appointees for positions requiring specialized training and/or experience of a professional, technical, or administrative nature.

- **Meetings of a Learned Society or Organization**

When the Institute is the host or sponsor of a meeting of a learned society or organization, the cost of meals or light refreshments may be reimbursed.

- **Meetings of an Administrative Nature**

When meetings of an administrative nature are held that are directly concerned with the welfare of the Institute, the cost of meals or light refreshments may be reimbursed. Where meals are involved, they must be a necessary and integral part of the business meeting, not a matter of personal convenience. For example, the Institute may reimburse the cost of meals for employees from the same work location if a working lunch is an integral part of a scheduled meeting. The meeting should take place over an extended period of time and the agenda should include a working meal to satisfy the requirement that the meal is part of a business function. Reimbursement will not be allowed when two or more employees choose to go to lunch together to continue their business as an incidental part of the meal, or when the meeting could have been scheduled during regular working hours.

Other than planned meetings and events, when two or more employees choose to dine together and they are the only ones in attendance, the Institute will not pay for that meal.

- **Student-Oriented Meetings**

When meetings between faculty or administrators and students are held, the cost of light refreshments may be reimbursed.

- **Prospective Institute Donors**

When the Institute hosts an event for the purpose of generating the goodwill of prospective Institute donors, the cost of meals or light refreshments may be reimbursed.

- **Receptions**

The cost of light refreshments may be reimbursed for receptions held in connection with conferences, meetings of a learned society or organization, fundraising events, meetings of student organizations/groups, employee recognition or length of service awards or retirement presentations, student events such as commencement exercises, etc.

- **Entertainment of a Spouse**

The entertainment expenses of the spouse (or equivalent) of a guest or the official host may be reimbursed as an expense provided such entertainment serves a bona fide Institute business purpose. The

appropriateness of inviting a spouse (or equivalent) should be determined by the division or department funding the event and should be in strict compliance with the ethical standards established by the Institute. Fundraising events, alumni gatherings, community and recruiting events are examples of activities that may require the attendance of a spouse.

- **Faculty/Staff Gatherings**

A modest meal or light refreshments for employee morale functions such as faculty/staff picnics, holiday gatherings, and employee recognition events may be reimbursed, provided the frequency and cost of such events are reasonable and appropriate to the situation(s). Such gatherings must be approved by the division or department funding the event and should be in strict compliance with the ethical standards established by the Institute. The standard of moderate cost is especially important for events held off campus.

B. Approval of Transactions

Approval for all official Institute entertainment expenses must be obtained from the appropriate division chair or major department head. Entertainment expenses incurred via a procurement card must be authorized in accordance with existing procurement card policies.

Events in which total costs exceed \$500 or per-person costs exceed \$50 must also be approved by the appropriate senior administrator—the President, Provost, Vice President for Business and Finance, Vice President for Development and Alumni Relations, Vice President for Public Relations, or Vice President for Student Affairs.

If the President, Provost, Vice President for Business and Finance, Vice President for Development and Alumni Relations, Vice President for Public Relations or Vice President for Student Affairs hosts an event exceeding a total cost of \$1,000, approval may be obtained from any of the other individuals included on this list.

Significant social events that are held to entertain alumni, current donors, and prospective donors or to celebrate Institute-wide occasions must be authorized by an appropriate senior administrator, usually during the annual budget process.

C. Funding Sources

Official entertainment expenses may be paid from various Institute fund sources, subject to the guidelines outlined above. All expense allocations

should be in accordance with the “Caltech Business Expense Guidelines” established in March 2003. The following general limitations apply:

1. General Budget

The Institute general budget funds may be used to fund official entertainment set forth in these guidelines.

2. Sponsored Research

Federal contract and grant funds may not be used to fund entertainment, unless such expenses are specifically authorized in the contract or grant, or by agency policy, and only to the extent and for the purpose(s) so authorized. In the event of a conflict between agency policy and Institute guidelines, the more restrictive of the two shall apply. Federal policy prohibits the purchase of alcoholic beverages or tobacco products using Federal funds.

3. Other Institute Funds

Various designated funds (including endowment income and gift accounts) may be used to fund official entertainment, but only within the restrictions, if any, governing the use of the funds and within these guidelines. In the event of a conflict between the terms of the fund and Institute guidelines, the more restrictive of the two shall apply.

D. Reimbursement Procedures

1. General

A request for payment or reimbursement of official entertainment expenses must be submitted on a Payment Request Form, unless the entertainment occurred while on travel status, in which case a Travel Expense Report is used. The completed request must include the following information:

- Date of entertainment;
- Names of individuals; and
- Business purpose or the business benefit gained or expected to be gained.

Expenses of \$75 or more per occasion must be supported by original itemized receipts, or acceptable electronic receipts, which must be submitted with the request for payment. In addition, the request must include written certification by the official host that the entertainment expenses were incurred for official Institute business purposes.

To ensure that adequate internal control standards are met, a payment issued to a vendor for entertainment expenses shall be delivered directly to the payee. Such payments shall not be delivered to any of the individuals involved in the approval or payment preparation process. Thus, all relevant documentation should be attached to the request for payment. For example, if a remittance advice¹ should be included with a payment to a vendor, this advice should be included with the payment request. The payment and advice will then be sent directly to the vendor.

2. Entertainment While on Travel Status

An Institute employee on travel status who incurs entertainment expenses (see Caltech Business Expense Guidelines: Business Related Travel) must claim such expenses in accordance with the procedures specified in this guideline. Such expenses should be noted on the Travel Expense Report and processed in accordance with Section 2.8 of the Travel Policy. For more information go to <http://procurement.caltech.edu/payment/travelpolicy.htm>. If the employee incurs exceptional expenses as defined above, these should be noted separately from other entertainment expenses and approved according to these guidelines.

E. Tax Considerations

Under Internal Revenue Service regulations, an entertainment expense will be considered taxable income to an employee if the entertainment activity is not directly related to the employee's job, the expense is lavish or extravagant under the circumstances, the official host (or another employee) is not present when the activity takes place, or if the expense is not substantiated with supporting documentation, as provided in this guideline. In addition, business meals with faculty, staff, or other colleagues that are frequent (i.e., that occur on a regular or routine basis) and reciprocal are considered taxable income. All such expenses are not allowable under these guidelines and cannot be reimbursed as entertainment expenses.

¹ A "remittance advice" is a notice that describes the transaction and serves as documentation that money is transmitted.

5. Responsibilities

Senior Administrators, Division Chairs, and Major Department Heads

The senior administrator, division chair or major department head, designated as a primary approver or secondary approver, is responsible for ensuring that entertainment activity conforms to the requirements of these guidelines, that claims submitted for payment or reimbursement include the appropriate supporting documentation and for ensuring that expenses incurred are appropriate to the funding source.

Office of Financial Services

It is the responsibility of the Office of Financial Services (OFS) to ensure that payment or reimbursement requests submitted by departments for entertainment expenditures are made in accordance with these guidelines. OFS is responsible for reviewing supporting documentation to verify that the amounts claimed are allowable, that the appropriate funds are charged, that the documents were properly approved prior to payment (or that adequate post audit reviews are performed), and for ensuring that payments are appropriately reported for tax purposes.

In addition, OFS is responsible for ensuring that supporting documentation is being retained in accordance with the requirements specified in the Caltech Records Retention Policy (in progress).

Questions of interpretation of this policy should be referred to the Controller.