



## GUIDANCE ON BUSINESS EXPENSES - ENTERTAINMENT

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### SCOPE

This guidance sets forth the California Institute of Technology's (Caltech) guidance on business expenses for entertainment. This guidance applies to everyone within the Caltech community—faculty, students, and staff—who conducts business on behalf of Caltech.

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### GUIDANCE

Caltech will incur or reimburse expenses that are: (1) reasonable; (2) necessary; (3) for a Caltech business purpose; and (4) documented, approved and submitted properly. Caltech will reimburse entertainment expenses incurred in connection with Caltech business, if charged to any non-Federal award (unless prohibited by any terms imposed by the source of the funds), that are appropriately documented by the employee. It is imperative that these and any related alcohol costs be segregated using the Expenditure Type of "Entertainment", so that they may be easily identified on the accounting records and excluded from any calculation of direct or indirect costs.

#### **Allowable Expenses and Occasions**

Expenses for entertainment must be directly related to, or associated with, the active conduct of official Caltech business. When a Caltech employee acts as an official host, the occasion must, in the best judgment of the authorizer, serve a clear Caltech business purpose, with no monetary or other substantial personal benefit derived by the official host or other Caltech 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 cost per person within Caltech limits for entertainment expenses. Expenses for entertainment must be approved by the appropriate authorizer. See the Approval of Transactions section below.

In addition to Caltech policies and procedures, 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 to the employee. See the Tax Considerations section below for more details.

The following are examples of situations that meet these criteria:

- **Hosting Official Guests**

When Caltech is hosting official guests, including but not limited to visitors from other universities, members of the community, 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 Caltech 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 directly concerned with the welfare of Caltech, the cost of meals or light refreshments may be reimbursed. Where meals are involved, they must be reasonable and a necessary and integral part of the business meeting, and not a matter of personal convenience.

- Student-Oriented Meetings

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

- Prospective Caltech Donors

When Caltech hosts an event for the purpose of generating the goodwill of prospective Caltech 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.

- Spouse or Other Dependent Expense

The entertainment expenses of the spouse, domestic partner, or a guest of the official host may be reimbursed provided such entertainment serves a bona fide Caltech business purpose. The appropriateness of inviting a spouse or domestic partner should be determined by the division or department funding the event and should be in strict compliance with the ethical standards established by Caltech. Fundraising events, alumni gatherings, community and recruiting events are examples of activities that may require the attendance of a spouse or domestic partner.

Expenses incurred for the spouse, domestic partner, family member, or a guest accompanying someone other than an official host are considered personal in nature, except on the infrequent occasions when attendance of a spouse at an event furthers the business interests of Caltech. In these cases, the Division Administrator or Vice President of Administration and Chief Financial Officer should authorize the expenses in writing in advance. This written justification must be submitted with the Travel Expense Report or Payment Request Form and must document the business purpose served by the spouse's or domestic partner's attendance at the meeting or function.

- 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 Caltech. The standard of moderate cost is especially important for events held off campus.

## **Funding Sources**

Official entertainment expenses may be paid from various Caltech fund sources, subject to the guidelines outlined above. All expense allocations should be in accordance with the Guidance on Business Expenses. The following general limitations apply, depending upon the source of funds to which the costs are allocated:

### 1. General Budget

Caltech 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 Caltech 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 Caltech 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 individual funds and these guidelines. In the event of a conflict between the terms of the fund and Caltech guidelines, the more restrictive of the two shall apply.

## **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 the Expense Report will be prepared using CardQuest, Caltech's expense management system. The completed request must include the following information:

- Date of entertainment;
- Names and affiliations of individuals in attendance; 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 receipts, or acceptable electronic receipts, which must be submitted with the request for payment.

To ensure that adequate internal control standards are met, a payment issued to a supplier for entertainment expenses shall be given directly to the payee, unless there are extenuating circumstances requiring the check to be picked up by individuals involved in the approval or payment preparation process.

## 2. Entertainment While on Travel Status

A Caltech employee on travel status who incurs entertainment expenses should note such expenses on the Expense Report and process in accordance with Caltech's Travel Policy. If the employee incurs allowable entertainment expenses as described in this guidance, these costs should be noted separately from other unallowable entertainment expenses on the same receipt and approved according to these guidelines.

### **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 these guidelines.

### **Approval of Transactions**

Approval for entertainment is handled by the authorizer to whom the authority has been delegated to approve department or project 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. In addition, any expense must first be tested against these guidelines and if the expense is being charged to a sponsored project, the expense must also comply with the terms and conditions of the award and with the applicable provisions of OMB Uniform Guidance. Costs incurred directly or indirectly in support of Federal research should be "allowable," "allocable," "reasonable," and "consistently treated."

Costs that are "unallowable" for sponsored research funds may still be allowable for gift and unrestricted funds so long as they meet the criteria outlined in this guidance. For example, refreshments for a meeting are generally unallowable on contracts and grants, but may be both necessary and reasonable on many other accounts. Entertainment expenses deemed reasonable by the division or department in order to conduct business to the benefit of Caltech including costs for meals, light refreshments, meeting space, amusement, diversion or social activities, including outings to night clubs, theaters, or sporting events, when a business discussion takes place during, immediately before, or immediately after the event are appropriate and allowable if they satisfy the terms of the account function. See the section on Allowability in the [Guidance on Business Expenses](#) for additional information.

A division or department may choose to set more specific spending policies for its faculty and staff. The stricter ruling has precedence. See the [Guidance on Business Expenses Flowchart](#) which outlines Caltech's process of authorizing expenditures.

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## ROLES AND RESPONSIBILITIES

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### **Authorizers**

- Responsible for ensuring entertainment activity conforms to the requirements of this guidance.
- Responsible for ensuring that requests submitted for payment or reimbursement include the appropriate supporting documentation and expenses incurred are appropriate to the funding source.

### **Principal Investigator**

- Responsible for ensuring that only allowable and allocable costs are charged to sponsored awards.

### **Division Administration**

- Reviews and monitors expenditures for allowability.

### **Post Award Administration Office**

- Reviews and monitors higher risk expenditures associated with sponsored projects for allowability.

### **Cost Studies Office**

- Reviews expenditures for allowability and ensures proper treatment of identifiable unallowable costs during development of the Facilities and Administrative cost rate proposals.

### **Office of the Controller**

- Answers questions regarding the interpretation of this policy.

### **Office of Financial Services**

- Responsible to ensure that payment or reimbursement requests submitted by departments for entertainment expenditures are made in accordance with this guidance.
- Reviews 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.
- Ensures that supporting documentation is being retained in accordance with the requirements specified in Caltech's Records Retention Policy.

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## DEFINITIONS

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Caltech uses Federal definitions for allocable, allowable, and reasonable for all business expenses, including those that are not charged to a Federal funding source in order to ensure consistency in

our treatment of costs. As used in this Guidance:

### **Allocable Cost**

A cost is allocable to a particular award, PTA, activity, or organization if the goods or services involved are chargeable or assignable to that award, PTA, activity, or organization in accordance with relative benefits received. In order to be allocable, a cost must meet the following requirements: (1) be necessary to the overall operations of the non-Federal entity and assignable in part to one or more award, PTA, activity, or organization consistent with the cost principals in subpart E of 2 CFR 200; (2) be incurred specifically for the award(s) or costs objective(s); and (3) if the cost benefits more than one award or activity, then the cost must be distributed to the benefitting awards or activities in proportions that may be approximated using reasonable methods.

### **Allowable Cost**

A cost must meet the following general criteria to be allowable: (1) be necessary and reasonable for the performance of the award, PTA, activity, or organization, as well as allocable; (2) conform to any limitations or exclusions set forth in the Uniform Guidance or the award terms and conditions; (3) be consistent with policies and procedures that apply uniformly to both Federal funded activity and other activities of Caltech; (4) be accorded consistent treatment; (5) be determined in accordance with generally accepted accounting principles; and (6) be adequately documented. The determination as to what is an allowable cost is dependent on the specific circumstances.

### **Authorizer**

An authorizer is a person to who authority has been delegated to approve entertainment expenses in accordance with all Caltech policies and the limitations outlined in this policy.

### **Business Entertainment Expenses**

Business entertainment expenses include 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 Caltech when a business discussion takes place during, immediately before, or immediately after the event.

### **Consistent Treatment**

Costs incurred for the same purpose in like circumstances usually must be treated consistently as either direct or indirect (F&A) costs. There are some exceptions such as administrative costs on sponsored projects which can be treated as direct or indirect costs, depending on the specific circumstances.

### **Direct Cost**

Costs that can be identified specifically with a specific award, such as a Federal award, or other internally or externally funded activity or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Identification with a specific award, PTA, activity, or organization rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect.

## **Entertainment**

Entertainment expenses include costs for meals, light refreshments, meeting space, amusement, diversion or social activities, including outings to night clubs, theaters, or sporting events. This list is not intended to be all inclusive and other activities not listed may be considered entertainment based on the nature of the activity or expense.

## **Necessary Cost**

A necessary cost is an expense for which a clear business reason exists.

## **Official Guest**

An official guest is a person who renders a service to Caltech or is present at a Caltech activity at the invitation of the person authorized to host the activity.

## **Official Host**

An official host is an employee representing Caltech who hosts a meeting, conference or event.

## **Reasonable Costs**

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. Caltech is predominantly Federally-funded so the question of reasonableness is particularly important. Major considerations are: (1) whether the cost is necessary for the operation of the institution or the performance of the sponsored agreement; (2) whether the cost meets the constraints or requirements imposed by such factors as arm's-length bargaining, Federal and state laws and regulations, and sponsored agreement terms and conditions; (3) whether the individuals acted prudently, considering their responsibilities to the institution, its employees, its students, the funding agency, and the public at large; and (4) whether the individuals acted in accordance with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements. There is no overall threshold for determining that a cost is reasonable. Whenever there is any doubt about the reasonableness of an expense, the Office of Financial Services should be contacted.

## **Unallowable Expenses**

A cost may be an unallowable charge on a Federal award but may be an allowable charge to a non-Federal funding source. Any expense considered unallowable by the Federal government must be accounted for so that it is identifiable in order to ensure proper accounting treatment. Federal unallowable expenses include, but are not limited to, bad debt expense, internal interest, and alcohol. Refer to Subpart E of the Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit for a list of Federal unallowable expenses. Questions regarding allowability can be referred to your local financial administrator or the Office of Financial Services.

## RELATED REFERENCES

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Separate guidelines are needed for certain categories of costs including travel, business expenses, P-Card activity and petty cash because they represent distinct and often problematic expense types. While not all inclusive, the following provides references to other Caltech policies or procedures that are relevant to this policy:

Caltech Policies, Memoranda & Handbooks

Office of the Controller

Office of General Counsel, Education and Workforce Practice Group

Office of Research Administration

Post Award Administration Office

Procurement Services

Property Services

## GUIDANCE ISSUED BY

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This guidance is issued by the Office of Financial Services.

## EFFECTIVE DATES AND UPDATES

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Action Take	Effective Date	Description of Action
Original Guidance	March 1, 2003	Approved by the Office of Financial Services.
Revised Guidance	January 2013	Approved by the Office of Financial Services.
Revised Guidance	December 10, 2017	Revised for consistency with Uniform Guidance and to put the document into new policy format.  Reviewed and revised by Office of Cost Studies.  Reviewed by the Office of Sponsored Research, Office of Research Administration, Post Award Administration, Office of the Controller, and the Office of Financial Services.  Approved by the Office of Financial Services