

**Earlham College**  
**Business Expense Policy**

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## Introduction

The Business Expense Policy, written by the Earlham accounting department in consultation with the Budget Advisory Committee, attempts to standardize procedures across the campus and assure that Earlham remains in compliance with IRS regulations. This policy begins with the premise that financial resources are precious and finite, but it also values the autonomy of the members of the Earlham community. The goal is to clarify the environment in which budgetary decisions are made in order to help members of our community put into practice the fourth principle in *Principles and Practices*:

There are limits to one's own time and energy, others' time and energy, and the resources so unequally distributed throughout the world. We each aspire to make only just and reasonable demands on the time and resources of others, to model a balanced life for those around us, and to work toward a more just distribution of resources.

This policy qualifies as an “accountable plan” for IRS purposes because Earlham requires proper substantiation of expenses, a bona fide business purpose, and timely settlement of any funds advanced. If an employee incurs expenses that do not comply with this policy, those expenses must either be paid by the employee or they must be reported to the IRS as taxable income to the employee.

## Part I: Travel Expenses

Earlham pays for travel expenses for employees who travel on College business. Employees are asked to use common sense and plan ahead to keep travel costs reasonably low. In addition, employees should assess the amount of travel required and use a method that is appropriate both for their needs and for the expense to the College. If you have any questions about travel expenses, please ask your supervisor or the controller before you leave.

Employees who travel on College business should pay their expenses using an Earlham credit card whenever possible so that the College can earn rebate income. The form to request a credit card can be found here: <http://www.earlham.edu/accounting-office/forms/>

Earlham requires dated and itemized original receipts for all travel expenses, except as noted in Section XII, along with a statement of the specific business purpose of the trip. If a trip includes both business and personal travel, only the portion of the expenses directly related to business travel will be paid by the College. In general, any expenses incurred by a spouse or other family members accompanying the employee will not be paid. If an employee believes the presence of a spouse is required for business reasons, advance permission for an exception to this policy should be obtained from the Vice President for Finance and Administration.

## **Private Automobiles**

In some College departments, the use of private (personal) automobiles for College business is not permitted. Otherwise, Earlham pays a flat rate per mile for official College travel by private automobile based on the actual driving distance or the most direct route, whichever is less. Earlham's mileage rate is set each fiscal year by the Finance office and it will not necessarily equal the IRS rate, which is the maximum nontaxable amount allowed. The mileage rate is in lieu of all actual vehicle expenses such as fuel, oil, tires, depreciation, insurance, towing charges, physical damage to the vehicle, repairs, etc. In addition to the standard mileage allowance, the College pays travel-related expenses such as tolls, ferries, and parking, but not traffic tickets, parking tickets, and other vehicle fines.

Employees may choose to be reimbursed for the purchase of gasoline instead of the flat rate times the miles driven, but only if they also track their miles and show that the cost of the gasoline is no greater than the mileage reimbursement amount.

Mileage paid for driving long distances should not exceed the comparable cost of airfare plus local transportation for the same trip.

Employees who drive their own vehicles on Earlham business should be aware that if they are in an accident, they are covered only by their personal insurance. In this case, Earlham's insurance does not apply and the employee will be responsible for paying the deductible. Employees driving passengers, whether students, employees, or guests of the College, in their own vehicles are also personally liable for any injuries to their passengers.

## **College Vehicles**

Earlham College leases a fleet of vehicles that may be used for business travel in lieu of a private automobile. Contact the Public Safety Office for more information about rules and availability. Charges for the use of a fleet vehicle are billed directly to the appropriate College department. Employees using a fleet vehicle are provided with a gasoline card so that fuel may be purchased and charged directly to the College.

## **Rental Vehicles**

Employees may rent a vehicle from a commercial agency for business travel after a flight or as an alternative to private or College fleet vehicle transportation. Use of airport shuttles or taxis is preferred when subsequent transportation needs are minimal. Earlham has a preferred provider relationship with National Car Rental and Enterprise Rent-A-Car, so be sure to provide the Earlham name when asking those two providers for quotes. Other agencies may have even lower rates, however, so please compare prices. When renting locally, Wetzels and Hertz also give discounts to Earlham employees. Employees are responsible for arranging their own rental cars.

As a general rule, rental cars should be compact or standard-size. Upgrades to full-size cars may be necessary, however, to include a larger number of persons or extra luggage. The car rental agreement should, for insurance reasons, include both "Earlham College" and the name of the individual. Do not purchase insurance through the rental agency because Earlham's insurance covers rental vehicles. The Human Resources office makes available Earlham insurance cards for employees who rent vehicles. For rental vehicles the College pays for the cost of fuel, in addition to the rental charge and automobile-related expenses such as tolls, ferries, and parking. Traffic tickets, parking tickets, and other vehicle fines will not be reimbursed.

## **Air Travel**

Travelers should make reservations as soon as possible to obtain advance purchase discounts. Employees should strive to purchase the lowest-priced tickets available for coach-class air travel. A somewhat more expensive flight may be purchased if the lowest-priced fare would:

- Require circuitous routing
- Require travel during unreasonable hours
- Greatly increase total travel time
- Result in increased costs that would offset transportation savings
- Be inadequate for the medical needs of the traveler

Please do not purchase travel insurance. If a change of plans becomes necessary due to circumstances beyond your control, the College will pay a reasonable change fee to adjust your ticket.

The College does not pay the cost of upgrades for preferred seating or boarding (including business class or first class seating) unless the upgrade is approved by the Vice President for Finance and Administration for a unique business need, or if the upgrade is an ADA accommodation. The College also does not pay the cost to enroll in the TSA PreCheck or similar programs.

If you choose to use personal frequent flier miles to obtain free tickets for business travel, you will not be reimbursed for the value of those tickets.

In general, the College will pay for one checked bag on domestic flights. If additional luggage is required due to an extended period of travel, the transportation of College materials or for international travel, the College will pay that cost as well.

## **Lodging**

Employees needing overnight accommodations while on business trips should use good judgment in finding reasonably priced lodging. When traveling to a conference, it is acceptable to stay at the hotel hosting the conference, unless the daily rate is unreasonably expensive compared to nearby alternatives.

Reasonable and necessary lodging expenses such as tips or fees for Internet connection will be paid by the College. Earlham will not pay for personal expenses such as in-room movies or mini-bars.

If an employee lodges in a private residence in lieu of staying at a hotel while traveling on College business, Earlham will pay for actual expenses incurred (not exceeding \$50 per night) in extending appreciation to the host for the hospitality.

## **Meals**

When overnight travel is necessary for College business, Earlham will pay for all meals. If an employee is traveling on College business but not staying overnight, Earlham will pay for lunch only, unless the trip extends beyond that employee's normal work hours.

Employees can choose to save receipts and have actual meal costs covered, or they can choose to receive a more modest meal per diem and avoid the hassle of receipts. When using the receipt method, the following dollar amounts are suggested as guidelines for domestic meals: breakfast \$10, lunch \$15, and dinner \$25 (or \$50 per day), plus a 15-20% tip. In some cities, or when dining with donors, a higher amount may be necessary and in such cases the IRS guidelines will be used. Itemized restaurant receipts showing the individual meals and beverages must be submitted for these meals. If alcoholic beverages are purchased for the employee's own consumption, the employee must pay for them personally. In special circumstances, such as when meeting with a donor or a special guest, alcohol may be purchased with College funds if the expense is approved by a Vice President in writing.

If an employee chooses to use the per diem method of paying for meals or did not keep receipts for every meal, in the US the employee is permitted to claim expenses of \$5 for breakfast, \$10 for lunch, and \$15 for dinner, or \$30 per day, without saving receipts. This per diem method may also be used when traveling with a group of students. If meals are provided as part of a conference registration fee at no additional cost, meal expenses may not be claimed using the per diem method. If the per diem method is chosen, it must be used for all meals on a trip and cannot be combined with the receipt method for some of the meals.

The cost of meals in other countries may vary considerably. Employees are encouraged to use good judgment, plan ahead, and consult with the International Programs Office to determine how much is reasonable to spend on meals abroad. As with meals in this country, employees may save receipts and have actual meal costs covered by the College, or they can use the per diem method and spend a more modest amount per day without needing to keep receipts. Per diem rates for international travel will be set by the accounting office in consultation with IPO.

## **Part II: Local Meals**

Earlham will pay for meals eaten locally or on campus only if there is a bona fide business purpose for the meal. Bona fide business purposes may include:

- Meeting with advisees or other students to discuss student matters
- Providing hospitality to guest lecturers or job candidates
- Meeting with donors, potential donors, or local leaders to discuss Earlham matters
- Hosting out-of-town guests of the College
- Meeting with colleagues when an on-campus meeting is not feasible due to scheduling conflicts or the need for confidentiality
- Occasionally (once or twice a year) rewarding or recognizing a group of employees for their achievements

Suggested guidelines for local business meals are: breakfast \$8, lunch \$12, and dinner \$20 per person, plus a 15-20% tip. The per diem method is not an option for local meals. Itemized restaurant receipts must be submitted for all local meals paid by the College. The receipt should include the names of all attendees, or, if there are more than 10, the number of attendees and a description of the group. If alcoholic beverages are purchased for the employee's own consumption, the employee must pay for them personally. In special circumstances, such as when meeting with a donor or a special guest, alcohol may be purchased with College funds if the expense is approved by a Vice President in writing. The business purpose of the meal should be explained in writing and submitted with the receipt. Meals with primarily social reasons do not satisfy the requirement for a legitimate business purpose.

Meals purchased for on-campus meetings also require the same business purpose justification. Employees should be aware that Metz by contract has an exclusive right to cater all meals for Earlham College on our campus. If a different caterer is desired, permission must first be obtained using the catering exemption process.

## **Part III: Refreshments for Employees**

Earlham will not make available for employees refreshments such as beverages or snacks on a regular basis. The occasional provision of such treats may be paid for with College funds, but if a supervisor wishes, for example, to provide donuts on a weekly basis at a staff meeting, that cost should be borne by the supervisor as a personal, not business, expense.

If an employee who has been at Earlham for five or more years leaves the College, their supervisor may use College funds to host a reception in their honor at the time of their departure. For employees leaving after a shorter term, the College will not cover the cost of a reception.

## Part IV: Payments for Personal Services

Independent contractors are individuals who perform work for the College but are not employees, e.g., guest artists or lecturers, athletic event referees, and skilled tradespeople. The IRS has strict rules for who qualifies as an independent contractor and who must be classified as an employee. If you have any questions about the IRS rules, please contact the Controller or the HR Director.

Independent contractors who perform personal services for the College must submit an IRS Form W-9 to the accounting office before they will be paid. Earlham will prepare a 1099-MISC for independent contractors who earn \$600 or more from the College in a calendar year in order to report their earnings to the IRS.

If an independent contractor is to be reimbursed for out of pocket expenses not reported to the IRS on 1099-MISC as taxable income, the contractor must submit acceptable receipts to document those expenses. Otherwise, all payments to such individuals will be reported on Form 1099-MISC as taxable income.

All payments to individuals who are not U.S. citizens are subject to complex IRS rules regarding tax reporting and withholding. For this reason, Earlham requires employees who approve payments to individuals for personal services to either certify that the individual is a U.S. citizen or provide information so that the accounting office can calculate the appropriate tax withholding to be applied to the payment. Expense reimbursements paid to non-resident aliens may also be subject to tax withholding as mandated by the IRS.

Occasionally Earlham employees are hired to perform personal services for a campus office other than their home department, e.g., free-lance writing, photography, editorial or design work, or other special projects. If the work is outside normal job duties of the employee, extra pay for such services is appropriate. Any such payments to individuals who are employees of the College must be processed as supplemental pay through the payroll office of the College rather than as independent contractor work paid through the accounting office.

## Part V: Gifts for Employees

Non-cash gifts to employees purchased with College funds may only be given by the Human Resources office in compliance with the regulations covering employee achievement and retirement awards. The HR office also provides flowers or a donation in the case of a death in an employee's family. College funds should not be used for personal celebrations such as employee birthdays, weddings, or baby showers. Small tokens of appreciation should be purchased personally, not with College money.

It is a violation of IRS regulations for the College to give monetary gifts, **including gift cards**, to any employee outside the payroll tax reporting system. The IRS considers gifts cards of any amount to be equivalent to cash and therefore requires us to tax any employee who is given a gift card using Earlham funds. Therefore, Earlham funds may not be used to purchase a gift

card for any employee, for any reason. If you do give a gift card in violation of this policy, you must immediately report that transaction to the Human Resources office. The value of the gift card will be added to the recipient's taxable wages and appropriate taxes will be withheld from their next paycheck. There can be no exceptions to this policy due to the very strict IRS regulations regarding wages and benefits.

### **Part VI: Gifts for Students**

Gift cards purchased with Earlham funds may not be given to students for any reason because the IRS considers gift cards to be the same as cash and requires that they be reported as taxable income to the recipient. Any monetary gifts made to students must be processed through either the payroll office or the financial aid office. There can be no exceptions to this policy due to the very strict IRS regulations regarding wages and benefits and federal financial aid regulations. Non-monetary gifts for students should be purchased using personal, not College, funds.

### **Part VII: Gifts for Non-Earlham Individuals**

Any gift with a value greater than \$50 given to a non-employee must be recorded as taxable income to the recipient. A W-9 should be provided to the accounting office for inclusion in the recipient's Form 1099-MISC at year end. If the recipient is not a U.S. citizen, additional paperwork will be needed to determine whether taxes must be withheld from the gift.

### **Part VIII: Entertainment**

Earlham College will only pay for entertainment when there is a business purpose for the expense such as student outings or hosting guests of the College.

The College pays civic and professional club membership fees only when the membership specifically benefits the College. The club's membership criteria also must be consistent with the College's non-discrimination policy. Dues for clubs which are social in nature or which only benefit the individual member will not be paid by the College.

### **Part IX: Purchase of Equipment, Supplies, or Other Goods**

Earlham will pay for the purchase of equipment, supplies, or other goods that are needed for legitimate business purposes. Our preferred purchasing method is to use an Earlham credit card so that we earn rebate income. The next best method is to be billed directly by the vendor. The College will only pay original, detailed vendor invoices, not monthly vendor statements that summarize all purchases during the month. In the case of vendors who neither accept credit cards nor provide invoices, a Check Warrant form should be used with supporting documentation attached to it.

All invoices and check warrants must be approved in writing by the person responsible for the budget or fund that will incur the expense, or that person's designee. A full signature on the document, rather than just initials, is required. The approver is responsible for verifying the following:

- The business purpose of the expense is valid
- The goods and/or services have been received as expected
- The total cost of the expense is within the approved budget
- Expenses are charged to the proper department and account(s)

Purchases of goods or services will be expensed during the fiscal year in which the goods or services are received, which may differ from the order or invoice date.

Earlham College is exempt from sales tax in the states of Indiana, Ohio, Michigan, Kentucky, Tennessee and Florida. Every effort should be made to declare our tax exempt status when making purchases in these states so we save the additional expense. Our tax exempt number is printed on all College credit cards for easy reference. The Controller's office can provide tax-exempt forms for those who do not have a College credit card or who need additional documentation. Note that in the state of Indiana, Earlham is not exempt from paying tax on meals or lodging.

Per Board of Trustees policy, externally contracted work in excess of \$50,000 must have competitive bids.

### **Part X: Purchases from Related Parties**

It is considered a conflict of interest for an employee to purchase goods or services for the benefit of Earlham College from a related party, including a business owned or controlled by that employee or a member of his/her immediate family or a close personal friend. If a purchase from a related party is deemed to be in the best interest of the College, the employee should first obtain written approval from a supervisor and document that the cost is comparable to what could be obtained from an unrelated party.

### **Part XI: Cash Advances**

Employees may request a cash advance for travel or other business purposes. A cash advance is a temporary loan for those employees who will need cash while traveling and who are unable to cover the costs personally and wait for reimbursement after they return. Employees are responsible for accounting for the use of all cash advances and must submit receipts for expenses plus return any extra cash. Cash advances of \$200 or less are paid at the cashier window; larger amounts are paid by check through the accounts payable process. In either case, the employee's request must have supervisory approval.

Each employee receiving a cash advance is responsible for returning expense documentation as soon as possible, no later than 30 days after returning to campus. This documentation should include an explanation of the purpose of the expense, receipts to support all expenditures with the appropriate expense account coding, and a return of any unspent cash.

If an employee fails to report on the use of a cash advance and to return any unspent cash within 120 days after returning to campus, the cash advance will be reported to the IRS as taxable income. No further cash advances will be given to an individual with an overdue cash advance.

Employees choosing to pay for meals using the per diem method do not need a cash advance if they will have no other cash expenses during a trip. Instead, they may obtain meals money before their travels by completing a cash reimbursement form and documenting the number of days at the \$30/day per diem rate. This payment will be recorded as meals expense, not as a cash advance.

## **Part XII: Expense Reimbursement**

Earlham College will reimburse employees for personal expenditures for the benefit of the College that comply with this Business Expense Policy. Expenditures up to \$200 may be reimbursed in cash at the cashier's window and amounts over that amount by check from accounts payable. Expenditures over \$200 may be reimbursed in cash with the approval of the Controller. In order to be reimbursed, an employee must complete a Cash Reimbursement or Check Warrant form, attach documentation for the expenses incurred, and obtain the written approval of the budget manager or their designee. Employees may not approve their own expense reimbursements, and administrative assistants may not approve reimbursements for their supervisors. Cash Reimbursement Forms and Check Warrants may be found here: <http://www.earlham.edu/accounting-office/forms/> .

Original, dated, detailed receipts for all expenses must be submitted with a request for reimbursement, except in the following cases:

- Small dollar expenditures such as tips and tolls, as long as the amounts are reasonable
- Mileage for use of a private vehicle, as long as the calculation is shown
- Meals paid using the per diem method
- Purchases made in foreign countries for which receipts are not customarily given, as long as a contemporaneous log of cash expenses has been kept

Guests of the College, job candidates, independent contractors, and other non-employees whose expenses are to be covered by the College may submit expenses for reimbursement using these same procedures. If the individual is not a US citizen, Earlham may be required by the IRS to withhold income tax from any such reimbursement.

### **Part XIII: Taxable Employee Benefits**

Occasionally the College may decide to pay for employee expenses that the IRS considers to be personal, rather than business, in nature. Examples of such expenses include, but are not limited to, the following:

- Travel and meal costs for a non-employee spouse or children to accompany a faculty member on an off-campus program
- Costs for purchasing Earlham-logo apparel for employees, including for coaching staff, that do not qualify as de minimis. Occasional purchases of Earlham clothing for employees is considered de minimis if the value does not exceed \$50 annually.
- Housing allowances for employees who are not required to live in campus housing

In all such cases, the payment to or on behalf of the employee must be treated as taxable income to the employee per IRS regulations. The individual responsible for approving this payment is required to report the payment to the Director of Human Resources so that the required tax withholding and reporting can take place.

### **Part XIV: Federal Grant Expenditures**

In the case of sponsored programs, the Principal Investigator (PI) is responsible for reviewing and approving all expenditure requests.

The PI is responsible for ensuring compliance with OMB cost principles at all times, as well as compliance with the award budget and any other award limitations or expectations.

The tests of allowability of costs charged to federal grants are:

- they must be reasonable;
- they must be allocable to sponsored agreements under the principles and methods provided in OMB Circular A-21;
- they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and
- they must conform to any limitations or exclusions set forth in OMB Circular A-21 or in the sponsored agreement as to types or amounts of cost items.

The Controller is ultimately responsible for identifying unallowable direct and indirect costs. On an individual grant basis, each PI is responsible for identifying (and preventing the incurrence of) any unallowable cost in violation of the above criteria.

Unallowable direct costs should be identified before occurrence by the expenditure approval process. The PI is the first person responsible for reviewing expenditure requests and determining whether the cost is an allowable direct cost of the grant fund. Once an invoice is received and is being processed for payment, two members of the accounting department then

review it again before it is paid. The goal is to find and stop unallowable expenses before the invoice is paid.

If an unallowable direct cost is incurred despite these reviews, then it will be identified after incurrence when the Controller reviews the grant fund accounting and reconciles it with the PI's records. If an unallowable direct cost is found after the fact, then that cost will be transferred to another funding source, most likely the unrestricted operating budget out of which the PI normally operates.