

## 641 HOSPITALITY POLICY

*Policy 641 was approved by the ISU Board of Trustees on May 7, 2010.*

**641.1 General.** It is understood that the business of Indiana State University (ISU) requires some expenditures of an entertainment nature. In all cases however, there must be a clear, documented, business purpose for the event/expenditure that indicates the event's benefit to the University. This policy is intended to be neither all inclusive nor to address every situation which may arise. Questions about specific situations not addressed in this policy and/or policy clarifications should be addressed to the Office of the Controller ext 3525.

**641.1.1 Consideration of Expenditure.** While responsible judgment should be used when expending any University funds, particular care should be exercised for hospitality expenses. Individuals responsible for making decisions concerning hospitality expenditures should always question whether the proposed expense represents an appropriate use of University funds. Thoughtful consideration of each decision will ensure that University resources are expended appropriately. The total amount and relative percentage of a school and/or department budget which is appropriate to spend on business meals and social events should be discussed in advance with the appropriate budgetary authority.

**641.1.2 Contract or Grant Funds Expenditures.** In addition, as with all contract or grant funds expenditures, it is the responsibility of the Principal Investigator to guarantee that all expenditures are made in accordance with all applicable contract or grant restrictions. In considering incurring expenses such as those addressed in this policy, PI's should keep in mind that the more restrictive policy/contract terms or budget (ISU vs contract/grant) will prevail. Thus if the contract terms are more liberal than ISU policy, the more restrictive policy (ISU) will be enforced.

### 641.2 Definitions.

**641.2.1 Hospitality Expenses.** The provision of food, beverages, activities, or events for the purpose of promoting and furthering the mission of the University.

**641.2.2 Business Entertainment and/or Other Social Events.** Events involving faculty, staff or students, and guests of the University in which a substantial purpose of the event is social in nature.

**641.2.3 Business Meals.** Meals at which faculty, staff, students and other external parties are present for the purpose of conduction focused discussions on University business, which include: banquets, committee meetings, conferences, departmental meetings, interviewing prospective employees, potential donors, recruiting prospective students, research sponsors/collaborators, retreats, seminars, and workshops.

**641.2.4 Business Meals.** Meals at which faculty staff, students and other external parties are present for the purpose of conducting focused discussions on University business, which include: banquets, committee meetings, conferences, departmental meetings,

interviewing prospective employees, potential donors, recruiting prospective students, research sponsors/collaborators, retreats, seminars, and workshops.

**641.2.5 Auxiliary Services Accounts.** Auxiliary services accounts are used to record income derived from fees charged to external parties for goods and services (e.g. Intercollegiate Athletics, Housing and Food Services).

**641.2.6 Sponsored Program Accounts.** Sponsored program accounts are used to record income and expense for activities sponsored by external organizations. Sponsors may be federal agencies, state agencies, industry, etc.

**641.3 Key Compliance Matters.** From an IRS perspective, for meals and entertainment to qualify as a business expense, they must be ordinary and necessary and not lavish and/or extravagant and must be directly related to or associated with the University's mission. In addition, an ISU employee must be present at the meal/event for it to meet the IRS business expense regulations. Because the IRS imposes strict substantiation/documentation requirements on such expenditures, the University must be able to provide the following documentation on such expenses:

- (a) Total amount of reimbursement/payment requested;
- (b) Date, time, and place of function;
- (c) Business purpose served by the expenditure;
- (d) Business relationship to the University of each person in attendance;
- (e) Submitting expenses for reimbursement within a reasonable time limit.

**641.4 Amount.** Expenditure amounts for business meals must be reasonable. For purposes of this policy, expenditure amounts for meals will be deemed “reasonable” if they do not exceed three times the current federal per-diem rate for that city, pro-rated as follows:

- (a) Breakfast: 25%
- (b) Lunch: 25%
- (c) Dinner: 50%

**641.4.1 Example.** For example, assume that a faculty member has a business dinner in Indianapolis with a colleague from another university, and the current federal per-diem rate for Indianapolis is \$44. Under these assumptions, a total dinner cost (excluding tip) of up to \$66 a person would be considered “reasonable” ( $\$44 * 50\% * 3 = \$66$ ). The cost of alcoholic beverages consumed during a meal **will not** be reimbursed. Any meal costs in excess of the per meal threshold will not be reimbursed unless the employee obtains the approval of their Vice President.

**641.5 Business Purpose/Relationship of Attendees.** For a business meal to be reimbursed, a business purpose with a list of attendees and their business relationship to the University is required by the IRS regulations. A detailed list of attendees will be required for meals up to and including 10 people. For a group of more than 10 people, a description of the group will suffice. A business purpose must be documented for all expenditures for which an employee is requesting reimbursement. Please provide this information on *The Hospitality Request Form* and submit it along with the reimbursement check request.

**641.5.1 Specificity.** Business purpose must be specific. “Dinner with donor to discuss alumni event ideas:” is an appropriately documented business purpose. “Dinner with donor:” is not. The business purpose of an expense may be obvious to the employee, but not to a third-party reviewer.

**641.6 Receipts.** The employee is expected to obtain **original** receipts for all expenses for which they plan to have reimbursed. An original receipt may take many forms (i.e., cash register receipt, copy of an order form, web receipt or confirmation). A receipt **must** identify:

- (a) the date of purchase;
- (b) the vendor name;
- (c) itemized list and unit price of the purchased items; and
- (d) the total amount.

**641.7 Proof of Payment.** The employee is expected to obtain proof of payment for all expenses for which they plan to have reimbursed. Proof of payment may take many forms but must demonstrate that payment was tendered and must identify the means by which payment was tendered by the employee. This information is usually included on the original receipt. Examples of this may include notation of:

- (a) “Cash Tendered”;
- (b) “Paid”;
- (c) A zero balance due;
- (d) Debit/Credit card payment (card type, last four digits of card and/or signature).

**641.7.1 Specificity.** Payment and reimbursement submitted without a detailed receipt and the additional information required will not be reimbursed. Please black out any private or unrelated information.

**641.8 Reimbursement Submission Time Limit.** The IRS requires business expense reimbursements to be reported within a reasonable period of time. The determination of a reasonable period of time will depend upon the facts and circumstances, but is generally held to be not later than 60 days after the date of the expense. In addition, in order to adhere to generally accepted accounting

principles, the employee should be mindful of the University's June 30<sup>th</sup> fiscal year end, as all expenses for that year should be reported prior to year end to ensure that the expense is appropriately captured in the financial statements and in the department's budget for the appropriate fiscal period. Reimbursement requests must be submitted no later than 60 days after the date of the expense, or the end of the fiscal year, whichever is sooner. Documented special facts and circumstances may allow for a later submission, however, any reimbursements submitted after 60 days are considered taxable income to the employee and will be reported on their annual Form W-2. Receipts and proof of payment are kept on file for IRS and State Board of Accounts audit purposes.

**641.9 Allowable Hospitality Expenses.** Allowable hospitality expenses have been divided into two general categories. They include 'Meals or Refreshments Served during Business Meetings', and 'University Functions and Receptions'. Allowable hospitality expenses are the responsibility of departmental and/or VP budgets and may be charged to general fund accounts, and auxiliary services accounts. Sponsored program accounts may be used if the expense is specifically approved in the budget and is in accordance with sponsor and University policy. When charging hospitality expenses to the above funding sources, expenses for alcoholic beverages are **prohibited**. Following is a description of each of the categories along with examples of allowable hospitality expenses.

**641.9.1 Meals or Refreshments Served During Business Meetings.** The University may pay or reimburse individuals for actual expenses incurred for meals whose primary purpose is a business discussion. Business meals must include at least one non-University employee whose presence is necessary to the business discussion. Expenses may be incurred only for those individuals whose presence is necessary to the business discussion. These may occur either locally or during out of town travel.

**641.9.1.1 Business Purpose Requirement.** The University will not pay or reimburse meal expenses that lack documentation or a clear business purpose. Meetings attended solely by University employees and gatherings that are primarily social in nature do not qualify for payment or reimbursement as business meals. However, occasional meals provided as part of a University function may be permitted (see policy on University Functions below).

**641.9.1.2 Occasional Meals.** Provision of food to gatherings of University employees on a daily or similar ongoing basis is not considered to be an appropriate use of state funds. Food may however be provided at meetings of University employees on an occasional basis. For example, it may be appropriate to provide food at a "working" breakfast, lunch or dinner, particularly when the employees are giving up personal time to conduct University business. A formal business discussion must be the primary purpose for the gathering. For purposes of this policy, "occasional" is defined as no more than six times during a fiscal year.

**641.9.1.3 Use of ISU Foundation Funds.** If a college or vice presidential area wishes to provide food to gatherings of University employees on a more frequent basis, it may do so with ISU Foundation funds. However, the Foundation should be contacted in regard to their policies before doing so. A formal business discussion must be the primary purpose for the gathering.

**641.9.1.4 Examples.** Following are examples of business meeting where meal and refreshment expenses are allowable.

- (a) Meals related to the individual recruitment of faculty or staff. When entertaining prospective employees, only meal expenses for the prospective employee and the principal individuals involved in the decision-making process will be considered allowable meal expenses. When the spouse/partner of the prospective employee is present at the meal, the University will also reimburse the meal expenses of the spouse/partner or guest of the principal individuals responsible for the recruiting.
- (b) Meals or refreshments served during University sponsored meetings of advisory groups, outside reviewers, or other committees when the group is composed of both University employees and non-employees.
- (c) Meals for individuals invited as academic visitors to contribute to the intellectual life of the University community. Normally, such visitors will deliver a seminar, colloquium talk, or other lecture or performance for the benefit of University faculty and/or students.
- (d) Meals related to marketing University facilities and services to secure potential conference business. When entertaining guests from external organizations that are considering conference arrangements with the University, only meal expenses for the guest and the principal individuals involved in the conference selection process will be reimbursed.
- (e) Working breakfast, lunch or dinner meetings, when groups of employees are giving up personal time to conduct University business. A formal business discussion must be the purpose of the gathering.

### **University Functions and Receptions**

**641.9.1.5 University-Sponsored Functions.** University funds may be used to provide food at a seminar, retreat, workshop, orientation or other University sponsored function. Invoices, payment requests, or

procurement card receipts for these expenditures must include a brief description of the business purpose of the gathering and a list of attendees. Under this policy, the University may provide food and/or refreshments at Board meetings, meetings with external stakeholders (alumni, state government, community groups, etc.), activities involving volunteers, and activities in which a majority of the participants are students. The cost of printing and mailing invitations to official University business functions may be paid using University funds.

**641.9.1.5.1 Examples.** Following are some more examples of allowable receptions:

- (a) Receptions for any employee who retires or terminates from the University, providing that the employee has 20 or more years of service with the University.
- (b) Receptions for faculty, staff, and students/families when the predominant numbers of those in attendance are students.
- (c) Receptions to present or to acknowledge awards to faculty, staff, students, and alumni for outstanding accomplishments.
- (d) Receptions to honor visitors, guests, or dignitaries.
- (e) Receptions for the opening of new exhibits at University facilities.

**641.10 Unallowable Hospitality Expenses.** Certain hospitality expenses are unallowable on University funds. Following are examples of unallowable expenses. Please note: This list is not intended to be exhaustive and does not list all unallowable expenditures on University funds.

- (a) Alcoholic beverages: The purchase or reimbursement of alcoholic beverages is not allowable on University funds. Departments desiring to charge only the alcoholic beverages portion of the bill to the ISU Foundation should obtain separate billings from the food provider.
- (b) Holiday and other social functions: Departmental functions that are considered personal are not authorized for reimbursement by the University. Expenses related to holiday receptions, luncheons, greeting cards and decorations, etc., are not allowable on University funds. Additionally, expenses for functions or decorations related to secretary's week, staff birthday parties, and other social events are not allowable on University funds.

- (c) Golf Outings: Registration fee for golf outings are not allowable unless they cannot reasonably be separated from the total (event is included in the registration of the business activity or conference).
- (d) Flowers: Purchasing flowers is not allowable on University funds unless the flowers serve as a decoration for an allowable event listed in this document or purchased using funds from an Agency Account.
- (e) Coffee Break & Refreshment Supplies: Supplies for coffee breaks, office refreshments, etc....are considered personal and may not be purchased with University funds. See the Foundation Policy for their policies on such expenses. Refreshments for business meetings which meet the business purpose test may be purchased using University funds if documentation supporting the business nature of the purchase and subsequent use is provided.
- (f) Expenditures that are inappropriate with university funds might be allowable with an Indiana State University Foundation account. The Foundation should be contacted in regard to their policies.

#### **641.11 Authorization and Responsibilities.**

- 641.11.1 Department Administrator.** The department administrator or a designee with appropriate decision-making authority must approve expenses for business meals or an event that costs less than \$500.
- 641.11.2 Dean, Chair, or Department Head** The Dean, Chair, or Department Head is responsible for authorizing student/faculty/staff-oriented social events and any event that costs \$500 or more.
- 641.11.3 Dean or a Vice President** The Dean or Vice President must authorize significant social events that are held to entertain alumni, current donors, and prospective donors.
- 641.11.4 Vice Presidents and University Controller (or designee):** Approve or deny exceptions to the University hospitality and entertainment policy.

*Last revised February 1, 2011*