Expense Guidance for Business Meals and Entertainment

Background

In light of the generous public support Western University of Health Sciences (University) receives from its donors, the significant federal contribution to its research mission and the many valuable tax benefits granted under the law, the University recognizes its responsibility to be a good steward of the public trust. Accordingly, members of the University community are held to the highest standards of stewardship for the funds that are placed in their trust. Individuals should employ the highest standard of care in disbursing University funds. Additionally, we must comply with Internal Revenue Service rules which prohibit the tax-free treatment of lavish or extravagant meals or entertainment. Excessive expenses could lead to tax penalties, additional taxable income to the employee, and required reimbursement to the institution under IRS rules.

Scope of this Guidance

This guidance applies to all funds, including gifts, endowment income, sponsored programs, designated income, unrestricted funds, and University general funds. This guidance applies to all business meals, whether or not conducted in the context of promoting employee morale or business entertainment. More restrictive policies and procedures may apply to individual accounts in each of the Colleges. This guidance applies to all payment mechanisms, including direct invoice from provider, credit cards, petty cash and direct reimbursement.

University Payment Policy

University policy allows business meals when:

• There is a bona fide and substantial University business purpose
• The participants are actively engaged in University business during the meal or entertainment immediately before or after
• Appropriate and permissible funding sources are available
• The purpose and amount of the expense demonstrate good judgment
• The expense is properly documented (who, what, when, where, why)
• The expense has been appropriately approved at a department level in accordance with the requirements of the policy.

Documentation Required for Payment

Documentation of business meals must include:
• Unless arrangements have been made with Accounts Payable, original receipts for transactions must accompany the requisition
• The date of the expense and name and address of the location of the meal
• The business purpose
• The names of the participants and their titles or other information establishing their business relationship with the individual incurring the expense.
Guidelines

The following guidelines are provided to help faculty and staff determine what is reasonable within the broad array of events and situations that occur on campus.

Reasonableness Test

University policy does not define specific dollar guidelines for what constitutes a reasonable meal expense, because the reasonableness of an expense depends upon many relevant factors including the business purpose of the event and its attendees.

However, “Reasonable” means the amount that normally would be spent in that specific situation. The amount will vary depending upon circumstances: lavish or extravagant meals will not be paid for by the University. Expenses for meals may be subject to additional approvals. Vice Presidents, Provost, Deans and Directors are encouraged to establish a review process for extraordinary or questionable expenses.

In the course of spending University funds, consider these questions to ensure that resources are being used appropriately and that we are being good stewards of the funds entrusted to us:

• Is the expenditure in line with the guidance provided in this document? If not, is there a good explanation as to why the expenditure is appropriate?
• Has it been adequately documented?
• Could the amount spent be comfortably defended under public scrutiny?
• Would you be free from worry if the expense was selected for audit?
• Would you be comfortable reading about it in the newspaper?
• Would you be comfortable explaining to a donor that you used his/her money this way?

University Funds

All meal expenditures are subject to University policies and this guidance regardless of funding source or intended recipient, unless more restrictive guidance applies.

Alcoholic Beverages

The University will allow for alcoholic beverages on campus as outlined under the Alcohol on Campus policy A14.38.0.2 http://wsprod.westernu.edu/policy/pp_policies_view.jsp?PID=1336.

Dollar Guidelines

The federal per diem amounts for meals serves as a starting point for guidance as to the suggested maximum amount of expense allowable for a business meal. Federal per diem amounts should also be used when University funds are used to pay for potential employee candidates or independent consultant’s meals. Example: The current federal per diem amount is $71 per day. This would be the maximum an employee, student, candidate or consultant should be paid. Per diem amount does not apply when entertaining for two or more individuals. When the meal is provided in the home of an employee, only actual out-of-pocket costs relating to that specific affair (e.g. catering, set up/take down, floral arrangements, rentals, cleaning) will be paid by the University.
For parties of less than twenty individuals, dining at a local restaurant may be more cost-effective than catering such a meal. However, it is recognized that there are small events for which a dinner in a home would be more suited for the occasion.

**Meals Provided to a Spouse and Others**

Meals provided by the University to a spouse, family member or other person accompanying a University employee will be permitted only when there is a substantial and bona fide business reason for that person’s attendance. The IRS does not permit tax-free treatment when the spouse or other person is present merely for a social or personal purpose.

There are events, however, where spouses or others are appropriate and necessary for building the sense of community that has characterized this university. Some examples of these include: departmental annual faculty gatherings such as beginning of the year or end of the year celebrations, holiday parties, staff recognition dinners, endowed professorship dinners, and award dinners. While permissible, such situations should be kept to a minimum.

Additional examples of appropriate business events including spouses or others:

- **A University employee provides a meal to a business client as part of a meeting. That client’s spouse attends the meeting because it is impractical to provide the meal to the client without the spouse. The spouse of the University employee attends the meeting, because the client’s spouse is in attendance. Then, the meals of both spouses will be paid for by the University as a bona fide business expense.**

- **Annual University reception for faculty**

- **Staff recognition dinners/events; award dinners for faculty or staff, endowed professorship dinners/receptions**

- **Conferences, workshops, symposia, where attendance of spouses or others is customary.**

**Frequency of Business Meals**

Business meals require a significant commitment of time and financial resources. Accordingly, the number of such events should be limited. It would be an extraordinary circumstance for an individual to participate in University business meals on a daily or several days per week basis. Where possible, meetings should be conducted during the normal hours of the workday.

**Proper Accounting**

It is important to properly distinguish between travel, business meals, donor entertainment and employee events when recording the cost of activities under this guidance.
Examples:

• **Employee Events (Account 70304)** - All costs of a holiday gathering meant as a celebration and acknowledgement of the efforts of the entire work group, including meals, entertainment and a token gift should be charged to Employee Events. Gifts that are considered cash, that includes gift cards are considered a fringe benefit and are compensation to the recipient.

• **Donor Entertainment (Account 70305)** - As part of an effort to recruit contributions, an approved employee takes an individual to dinner at a local restaurant where the merits of the University are presented. The meal, mileage and other costs should be charged to Donor Entertainment.

• **Employee Meals Expense (Account 70306)** - *Unable to meet during the normal course of the day due to scheduling conflicts*, two faculty members meet over lunch to discuss the development of an interdisciplinary curriculum. Two managers meet to discuss employee issues that could not be discussed during normal office hours. Also includes per diem meals for traveling while away from home.

• Other accounts such as travel, recruitment, or other specific events may also include meals as part of the activity.

**Responsibilities of Senior Management and Other University Units**

It is the responsibility of the officers and deans to periodically advise faculty and staff of requirements of this guidance. Deans’ offices should properly advise new employees of this guidance and any related local policies and procedures.

**Questions Regarding These Guidelines**

Questions regarding these guidelines should be directed to the Accounts Payable department.