



## GUIDANCE ON BUSINESS EXPENSES

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### SCOPE

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

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### GUIDANCE

As a basic tenet of doing business at Caltech, members of the 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. Business activities undertaken on behalf of Caltech must reflect the highest standards of honesty, integrity, and fairness. Each member of the Caltech community must take care to avoid even the appearance of misconduct or impropriety.

#### **Cost Basics**

##### **Business Expenses**

Business expenses must serve a legitimate business purpose or connection and must be supported by adequate explanation and documentation. Personal expenses are incurred for items that do not serve a legitimate business purpose. These costs are incurred for personal reasons or convenience and serve no business purpose. The distinction between a business expense and a personal expense may be difficult to make. Expenses for cell phones, internet access, airline club memberships, and use of vehicles are examples of costs that are typically personal expenses and not business expenses, but the distinction can be difficult for individuals to understand.

Caltech will directly pay or will reimburse properly substantiated business expenses. Personal expenses will be reimbursed or paid only in extraordinary cases, with approval by the Office of Financial Services. For example, the purchase of a cell phone and the monthly service cost of the cell phone are generally personal expenses, although there may be situations when there is demonstrated significant business need for the employee to have a cell phone to conduct Caltech business. In such cases, Caltech may cover a portion or all of the costs. Under these circumstances, the portion of the cost that Caltech covers would be an allowable cost and may be charged to a Caltech account for which that is an allowable expense. If the distinction between a business expense and a personal expense remains in doubt, contact the Office of Financial Services for assistance in making that determination.

In order to promote good business practices, Caltech's policies and procedures about business expenses comply with the Internal Revenue Service rules related to business expenses and tests for an "accountable plan", and, as a result, certain reimbursed expenses are excluded from the employee's gross income. Any reimbursements for personal expenses may need to be reported as

income on the employee's W-2, in accordance with Internal Revenue Service regulations.

### **Allowability**

Staff and faculty who administer sponsored project accounts have traditionally thought of "allowability" in the context of direct costs, that is, whether those costs are allowable under the specific terms of the grant or contract. This is one very important meaning of allowability. However, the concept of allowability applies also to costs that are indirectly related to sponsored projects. Staff and faculty who manage general budget accounts, gift accounts, and any other non-Federal account must also be careful to identify unallowable costs. Note that these expenses may be permitted on non-Federal accounts under Caltech guidance and policy and may be entirely valid and appropriate; however, the Federal government will not allow Caltech to claim them as direct or indirect costs of Federal sponsored projects will not reimburse Caltech for these costs.

As a result, Caltech must remove these costs from accounts associated with direct and indirect costs so that (1) they will not be charged directly to a Federal sponsored project and (2) they do not fall into one of the pools of indirect costs that are reimbursed by the Federal government. Generally, this can be accomplished by using an appropriate expenditure type that has the word 'unallocable' in the expenditure type name for charging the expenses or by using a specific PTA.

Examples of unallowable activities and costs include lobbying, organized fund raising, student clubs, housing and personal living expenses of senior administrators, entertainment, alcoholic beverages, first class travel, and fines and penalties. All expenses incurred in support of these activities are also unallowable. Federal provisions for allowability of selected cost items are included in §200.420 through §200.475 of 2 CFR 200 Subpart E Cost Principles.

### **Types of Funds**

Similar to other colleges and universities, Caltech organizes accounts in accordance with the source of funding and the function to be supported. An expense must be related to the account's function and must honor the terms of the funding source in order to be charged to that specific account. Here are the three major fund types and some constraints on what can be charged to them.

#### **1. Sponsored Research**

At Caltech, the largest source of operating revenue is the Federal government which funds both the direct and indirect costs associated with the performance of research on its behalf. Caltech has a responsibility to ensure compliance with the terms of the individual sponsored contract or grant and the principles of the OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 CFR 200.

Direct costs charged to a Federal sponsored research award must meet the definition of a direct cost, but also must be "allowable," "allocable," and "reasonable," and "consistently treated" under the Uniform Guidance cost principles. See the definitions section of this guidance for examples and definitions of key attributes of costs that are reimbursable by the Federal government.

## 2. Gifts, Private Grants and Endowment Income

Donors provide another revenue source; they include individuals, corporations, foundations, or trusts that usually make contributions in support of particular programs. Examples include an endowed chair to support a professor, a scholarship or fellowship to support undergraduate or graduate students, or contributions for capital projects. Caltech is subject to the terms and conditions set forth by donors and all expenses charged to these funds must meet donor restrictions and be legitimate business expenses. Occasionally, contributions are received without restrictions and may become part of the general budget.

## 3. Other Funds

Other sources of revenue include tuition and fees, reimbursement of facilities and administrative costs (indirect costs), and contributions without donor restriction.

These revenues are the primary unrestricted funds that support Caltech's operations and facilities costs. Most unrestricted funds are managed in general budget accounts, although some may be designated within Caltech for special purposes. An example of internally designated funds is the Provost's facilities renewal program.

Discretionary accounts are labeled as such to distinguish accounts that are subject to broad donor restrictions. The implication is that many expenses are appropriate at the discretion of the account holder or division chair for these broadly restricted funds. It should be clear, however, that only expenses serving a legitimate business purpose are an appropriate use of any kind of Caltech funds.

For example, a professor's office is being refurbished and the division has allocated \$10,000 from its general budget account for furnishings (desk, chair, bookcases, etc.). The professor would like to upgrade the bookcase; he charges the extra cost to his discretionary account. The bookcase serves a legitimate business purpose, and its total cost is an appropriate use of Caltech funds. However, the cost exceeds what is available within the priorities of the division's general budget, and in this case the discretionary account has sufficient funds to absorb the difference.

All Caltech funds are restricted to the mission of Caltech: research, instruction, and related activities. Funds not restricted by outside sponsors or donors may still be set aside and designated for particular purposes by Caltech. Here are some examples.

- Research Pool accounts. The Provost has authorized funds to support the research of faculty who allocate a percentage of their salary to sponsored research. Allowable expenses on these pool accounts must support the faculty member's research.
- Gift accounts which are broadly restricted for research in a particular discipline. The constraint for these accounts is to support the research program of the department. There may be broad interpretation such as an honorarium for a guest speaker lecturing on a research-related topic, or travel expenses for recruiting graduate students or postdocs in the discipline. Any expenses that appear to be personal should be justified in writing and approved at the division level.
- Other Activity accounts include Service Centers, Facility Use Agreements and Technical Service Agreements. For these accounts, expenditures are restricted to the special purposes

for which the account was established. These may include conferences, sales and service programs, commercial receivables activities, internal collaborations, and internally designated funds.

### **Costs Requiring Special Attention**

The following is a sample of expenses that require special attention and may be unallowable in some or all circumstances:

1. Membership fees, subscriptions, and professional activity costs
  - Must serve the instruction, research or related objectives of Caltech.
  - For individuals, must support the person's job-related responsibilities.
  - In general, dues and subscriptions related to business, technical and professional organizations should not be charged to Federal awards, although these costs may be appropriate on other Caltech accounts and may be allowable for purposes of indirect cost recovery.
  - Membership fees for airline clubs, private clubs or social organizations should not be charged to Federal awards and are generally not allowable on any Caltech account. Exceptions must be approved at the appropriate level.
2. Traffic or parking tickets/citations for either personal or Caltech vehicles
  - Arising from an infraction of the law, these fines have no business purpose and are not allowable on any Caltech account.
3. Caltech Parking permits for Caltech employees and students.
  - Unallowable on any Caltech account.
4. Purchase of property solely for personal use.
  - Unallowable on any Caltech account.
5. Political contributions
  - Unallowable on any Caltech account.
6. Child care
  - Limited allowance. For details, please see the Policy on Faculty Travel on Caltech Business.
7. Gifts to other non-profit organizations and charities
  - Must be made on behalf of Caltech.
  - Must benefit Caltech, promoting goodwill, or otherwise fulfilling Caltech's role as a good member of the community.
  - Must be approved by the Provost or Vice President of Administration and Chief Financial Officer.
  - Not allowable on Federal grants and contracts.

8. Costs associated with personal telephones, other than cell phones
  - Generally unallowable, except for toll calls made in the conduct of business.
  - Exceptions must be approved at the appropriate level.
9. Costs associated with cell phones
  - Allowable with demonstrated significant business need.
  - Must be approved at the appropriate level.
  - Cell phones purchased with Caltech funds are the property of Caltech.
10. Costs associated with internet connections at home
  - Generally unallowable, except when expenditure is essential to the employee's on-going functions in support of Caltech.
  - Exceptions must be approved at the appropriate level.
11. Purchase or upgrade of home computer for compatibility with office equipment
  - Generally unallowable, except when expenditure is essential to the employee's on-going functions in support of Caltech.
  - Exceptions must be approved at the appropriate level.

In many cases the issue of determining whether a particular cost is allowable or unallowable is a complex matter. When in doubt, consult with your financial administrator or the Office of Financial Services.

Exceptions to what is an unallowable expenditure of Caltech funds may be approved by the President, Provost, Vice President of Administration and Chief Financial Officer, Vice President for Development and Alumni Relations, Vice President for Public Relations, Vice President for Student Affairs, and Chairs of Divisions, or their designees.

### **Authorizing Expenditures**

Both the person who incurs the expense and the person who reviews and approves the expense are responsible for ensuring maximum practical economy for a reasonable business purpose. In addition, any expense must first be tested against this Guidance 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. As previously discussed, 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 represent reasonable and necessary Caltech expenses and meet donor restrictions. For example, honoraria are generally unallowable on contracts and grants, but may be both necessary and reasonable on many other accounts. Reasonable expenses for improvement of working conditions, employer-employee relations, and employee performance are appropriate and allowable if they satisfy the terms of the account function.

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.

## ROLES AND RESPONSIBILITIES

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### **President, Provost, Vice President of Administration and Chief Financial Officer, Vice President for Development and Alumni Relations, Vice President for Public Relations, Vice President for Student Affairs, and/or Chairs of Divisions**

- Responsible for approving exceptions to what is typically considered an unallowable expenditure of Caltech funds.

### **Principal Investigator**

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

### **Office of Financial Services**

- Provides guidance on allowability of expenses and determinations of whether or not an expense is a personal or business expenses.
- Approves reimbursement of personal expenses in extraordinary cases.

### **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.

## 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 general accepted accounting principles; and (6) be adequately documented. The determination as to what is an allowable cost is dependent on the specific circumstances.

### **Business Expenses**

Business expenses are defined as the operating costs of Caltech which are (1) reasonable and necessary for Caltech purposes, (2) consistent with Caltech policies and practices, and (3) compliant with applicable laws and regulations.

### **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 particular final 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 final award, PTA, activity, or organization rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect.

### **Facilities and Administrative (F&A) Cost**

Indirect or F&A costs are those costs incurred for a common or joint objective benefitting more than one award, project, task, award or other activity that are not easily or readily assignable to the benefitting project, task, award, or other activity without effort that is disproportionate to the results achieved. The F&A costs associated with research performed for sponsors are recovered by burdening sponsored projects with Caltech's negotiated F&A cost rate in ORACLE.

### **Necessary Cost**

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

### **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 unallowable to 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 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.

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## RELATED REFERENCES

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Separate guidance is needed for certain categories of costs including but not limited to travel, entertainment, P-Card activity and petty cash because they represent distinct and often problematic expense types. The following websites provide useful references and links to Caltech policies and procedures in addition to agency policies and Federal guidelines. This additional information may provide further guidance on specific issues or topics.

[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](#)

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## 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 01, 2003	Approved by Office of Financial Services and the Provost's Office.
Revised Guidance	January 4, 2013	Approved by Office of Financial Services and the Provost's Office.
Revised Guidance	September 1, 2017	<p>Revised for consistency with Uniform Guidance and to put the document into new policy format.</p> <p>Reviewed and revised by Office of Cost Studies.</p> <p>Reviewed by the Office of Sponsored Research, Office of Research Administration, Post Award Administration, Office of the Controller, and the Office of Financial Services.</p> <p>Approved by the Office of Financial Services</p>