

## MEMORANDUM

TO: Dr. Norman P. Stein  
Faculty Senate Ad Hoc Committee on Reimbursement Policies

FROM: Reba Essary  
Associate Vice resident for Finance

DATE: March 15, 2000

RE: Responses to Policy Issues

Attached is a compilation of responses to the issues you have raised regarding the University's reimbursement policies. Many of the policy items in question are based on requirements to imposed upon the University by various authorities. For these items, we have referenced and attached the relevant state late, federal tax regulations, University legal counsel opinions, etc.

Other items, which were not mandated by an outside authority, have been developed as University policy through an ongoing process. Throughout the last decade. continuing efforts have been made to clarify our policies and quantify certain items so that the policies could be applied consistently on a University-wide basis.

Beginning with the original printing and with each revision thereafter, policies were developed in consultation with the business officers of the various schools and colleges, as well as representatives from Academic Affairs (Dot Martin), Student Affairs (Molly Lawrence) and Auxiliary Services (Gina Johnson). This group determined the dollar limits or thresholds for those items not specifically dictated by an outside authority.

I hope that the attached information will assist the committee in understanding the background for the items in question.

## RESPONSES TO REIMBURSEMENT ISSUES

### TRAVEL

#### **1. \$45 meal limit on out-of-state travel**

This limit was put in place to keep reimbursement to a reasonable level, without the employee having to submit receipts for every meal. The State Examiners Dept. has indicated that it is within the University's right to set such a policy per memorandum dated July 26, 1990 (*Attachment 1*). Our limit is higher than most schools, according to a survey done by the University of Florida (*Attachment 2*). Many schools limit the reimbursement to the IRS per diem limit for meals, which is currently \$30. We have been able to provide a higher threshold by structuring our plan so that we reimburse actual expenses, up to a limit of \$45, rather than a per diem amount of \$45. If we were to go to a flat per diem amount, we would either have to limit the per diem to the IRS rate, or tax the employee for the excess.

#### **2. Reduction of \$45 limit when meals are provided by a conference**

The question refers to a reduction of "\$10, \$15, or \$20" for breakfast lunch, or dinner, respectively. The current Travel Policies (Page 11) require that the maximum meal amount be reduced by \$10 for a conference-provided breakfast or lunch and \$25 for a conference-provided dinner.

Where a meal is provided as part of a conference and the cost for it is covered by the registration fee that has been paid by the University on behalf of the traveler, such a meal would be the equivalent of a meal provided by the University. When the employee is not expected to incur expenses for a full day's meals, it is appropriate to reduce the daily meal limit accordingly. This policy is based on the UA System Office Legal Counsel's Interpretation of a State of Alabama Attorney General's Ruling (*Attachments 3a & 3b*). The amounts of the reduction were set by the University at what were believed to be reasonable levels, in relative proportions to the usual costs associated with breakfast, lunch and dinner.

#### **3. "60-day rule" for submitting expenses to be reimbursed**

The University maintains an "accountable plan" for expense reimbursements to its employees. This allows us to make reimbursements tax-free, if the following IRS requirements<sup>1</sup> are met:

- There is a documented valid business purpose for the expense.
- substantiation is provided for the expense (receipts or other documentation as required) within a reasonable period of time, and
- Any excess reimbursement not substantiated must be returned to the employer within a reasonable period of time,

To aid in defining a reasonable period of time, the IRS provides "safe harbor" time periods in the regulations. The safe harbor for substantiating expenses (i.e. submitting documentation for reimbursement) is 60 days from the date the expense was incurred.<sup>2</sup> If an amount is not substantiated within this time period, the reimbursement is treated as paid under a "nonaccountable plan", meaning that it is included in the employee's gross income for tax purposes.<sup>3</sup>

For consistency in operating its accountable plan, the University has incorporated the 60-day requirement into its Spending Policies and Travel Policies. Any expense reimbursements that do not meet this requirement are subject to tax withholding and are included on the employee's W-2.

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<sup>1</sup>Treasury Regulations 1.62-2 (Attachment 4)

<sup>2</sup>Treasury Regulations 1.62.2(g)(2)

<sup>3</sup>Treasury Regulations 1.62.2(h)(2)

## RESPONSES TO REIMBURSEMENT ISSUES

### **4. Conference programs required to be submitted ,**

Programs are required as documentation in order to legitimize attendance and verify dates of travel for business purposes. The program will also provide a detailed schedule, indicating which meals, if any, were provided as part of the conference (refer to item #2 above).

### **5. Treatment of separate charges conference meals**

The issue here is not whether we will pay in advance, but whether the meal or other conference-related event is truly a business function. If it can be documented that a lecture, speech, or conference-related presentation is part of the meal, there should be no problem with paying it along with the conference registration fee. However, charges for events that are “extra-curricular”, unrelated to the business purpose of the conference will not be paid by the University. It will be the employee’s responsibility to cover these charges if he or she wishes to participate.

### **6. Vouchers returned for improper substantiation**

Accounts Payable makes every effort to resolve any problems with vouchers (such as incomplete documentation) as efficiently as possible. This enables us to provide the complete reimbursement in a timely manner (see also Item #8 below). Vouchers are not sent back to departments unless other efforts to obtain the information (IA. phone calls, e-mail) are unsuccessful.

### **7. Original plane ticket required**

The original plane ticket is required as documentation for several reasons:

- To verify the time and duration of travel
- To indicate the class of travel, since the University only reimburses coach, not first class
- To verify how the ticket was paid

It should be noted that since “ticketless travel” is now very common, the itinerary could be used in place of an original ticket if it shows proof of payment. If not shown on the itinerary, proof of payment must be established by a credit card statement, cancelled check, etc.

### **8. No additional reimbursement requests allowed after initial voucher**

Due to duplicate reimbursements found by the UA System Office of Internal Audit, University policies were changed to require that the total reimbursement package be submitted at one time. This enables Accounts Payable to verify all expenses associated with the trip. Furthermore, by turning in all expense documentation within 60 days from completion of the trip, the employee will avoid potential taxation on the reimbursement (refer to Item #3 above).

It has come to our attention that situations may arise where, due to budget constraints, the department does not wish to cover the entire cost of travel at the time of the initial request for reimbursement. In this case, the *entire travel package with all supporting documentation* must still be submitted to Accounts Payable with the initial request for partial reimbursement. If funds become available at a later date, the department may submit a request for additional reimbursement, referencing the date and check number of the earlier payment. We will clarify the procedures for these extenuating circumstances upon our next policy revision (scheduled for Summer 2000).

## RESPONSES TO REIMBURSEMENT ISSUES

### **9. Original hotel folio required**

This is a basic documentation requirement for substantiation of expenses under our accountable plan. Original receipts ensure against duplicate reimbursements. The hotel folio is used to:

- verify dates of attendance
- verify how many people were registered in the room, since the University only reimburses the single room rate
- detail any items charges to the room that would not be reimbursable by the University, such as alcohol, movies spa fees, etc.
- verify proof of payment .

### **10. Birmingham airport mileage limited to 60 miles**

For travel purposes, an employee's "base" is the place whom he regularly reports for work (as opposed to the employee's place of residence). This definition comes from State of Alabama law, as well as IRS guidelines (*Attachments 5 & 6*). Per an atlas, It is 60 miles from the UA Tuscabosa campus to the Birmingham airport. This limit is only for travel to and from the airport. If other business was involved, this would be taken into account.

## ENTERTAINMENT

### **1. Requirements for entertainment ant meal reimbursement**

The question referred to "the policy of requiring both a credit card or other proof of payment, and the original restaurant check." The current Spending Policies require an original receipt for all entertainment meals, and for meals over \$25 per person the receipt must be itemized (not just a credit card slip).

If the meals are *less than \$25 per person* proof of payment is all that is required.

For meals *over \$25 per person* a detail of charges is required as well as proof of payment. If both of these requirements are met with one item of documentation, that is all that will be needed. For example, if an itemized receipt also shows the proof of payment, it would be sufficient.

## OTHER REIMBURSEMENT

### **1. Requirements for reimbursement of out-of-pocket expenses such as supplies**

The question refers to "requiring a cancelled check or credit card invoice in addition to a receipt." The policy does not normally require both of these items. However, the documentation must establish both (1) proof of payment and (2) detail of the items purchased.

Therefore, if a detailed paid recent is furnished, that should be sufficient. However, if it is an "invoice" which does not show proof that payment was made, then proof of payment (i.e. cancelled check, credit card statement, etc.) would be required. Conversely, a credit card slip that did not show detail of what was purchased would be insufficient without a detailed receipt.

## RESPONSES TO REIMBURSEMENT ISSUES

### MISCELLANEOUS

#### **1. Requirement for checks to be processed at a centralized location**

The centralized Accounts Payable system is in place to ensure that all payments comply with state and federal laws as well as University policies. There are elaborate internal controls required by both internal and external auditors in regard to Bank reconciliation, cash flow management, safeguarding of check stock and signature plates, etc. The Board of Trustees has given signature authority only to the Vice President for Financial Affairs and the Associate Vice President for Finance. Their signatures are stamped only on checks that have gone through the appropriate Accounts Payable system controls.

#### **2. Certificates of tax exemption for purchases at the college level**

The State of Alabama sales and use tax laws contain a specific exemption for public schools. Therefore, there is no "exemption certificate" issued to the University. Alabama Sales and Use Tax Regulation G27-051.3 (810-6-3-.47.04) Sales to Public Schools states that purchases will be exempted from sales and use tax "where a purchase order is issued therefor by the principal of an elementary or high school or by an official authorized to make purchases for an institution of higher learning." (*Attachment 6*)

Therefore, the request to have individual "certificates of exemption" available at the college level would not be possible under State law.