

Travel Policies and Procedures Practices for Nonprofit Excellence

(Reprinted from CAN *Alert* July/August 2011 issue)

With the increased scrutiny on nonprofits as a result of Sarbanes-Oxley, the California Nonprofit Integrity Act and the new IRS Form 990, ensuring strong expense oversight is not only a best practice, it has become essential. Having formal travel policies and procedures in place helps to assure your stakeholders that your organization is acting as a good financial steward and that travel expenses and reimbursements are appropriately scrutinized and in line with current IRS regulations. Here are some best practices that you should consider making a part of your travel and expense reimbursement policies and procedures:

1. **Adopt a formal written travel policy.** Your governing board should formulate and adopt a travel policy that is applicable to all employees, board members, volunteers, consultants and anyone who travels on behalf of your organization. The policy should establish guidelines and controls to ensure that funds are expended in a cost effective and prudent manner which is in line with your organization's purpose and mission. You can find a sample Travel Policy which you can customize to fit the needs of your organization on CAN's members-only website at www.CAnonprofits.org.
2. **Make prior approval mandatory.** As a best practice, have all travel approved in advance by an appropriate party, preferably someone who can evaluate the need for the travel and evaluate the expected cost. For the CEO, the appropriate party might be the Board treasurer or his/her designee. For employees, volunteers and consultants, the supervisor. For board members, the CEO, Board treasurer or his/her designee. If it's impractical to have all travel approved in advance, at the very least, specify a maximum dollar amount over which approval must be obtained.
3. **Require proper documentation.** Under IRS code, unless there is a reasonable accounting for travel expenses, they are treated as income to the traveler and must be reported on a Form W-2 or Form 1099. To ensure your organization appropriately meets this requirement, stipulate that all travel expenses must be accompanied by a receipt and be properly documented. Reasonable and proper documentation includes: a) sufficient information to establish a valid business purpose for the travel, b) substantiation of the travel expense with required original receipts and a record of each expense indicating the amount, date and place, and c) the prompt return of any unused monies from travel advances.

Have a standard expense report that must be completed for all travel and other expense reimbursements. Make sure it is signed by the individual requesting the reimbursement as well as the approving party. Have certification wording on the form to the effect: *"I certify that the above is a true statement of my out-of-pocket expenses"*. You can find a sample Travel Expense Report on CAN's members-only website at www.CAnonprofits.org

4. **Specify maximum amounts.** To ensure that those who travel on behalf of your organization do not spend excessive amounts, specify maximum amounts which can be spent on meals, lodging, airfare, ground transportation and other costs of travel. Good benchmarks for setting reasonable travel expense maximums are IRS Publications 463 and 1542 which contain the federal allowable per diem rates. Setting amounts higher than the IRS allowable rates could be construed as excessive spending by your stakeholders and may ultimately constitute taxable income to the traveler.

5. **Specify non-reimbursable expenses.** To ensure that expenses are not incurred for items or activities that would be considered inappropriate to your organization's mission or IRS regulations, stipulate the types of expenses that are not allowable and will not be reimbursed. While the IRS has a specific list of non-reimbursable expenses (i.e., country club dues, airline club dues, etc.) based on your organization's mission and stakeholders, you may want to include other items which might be considered inappropriate or 'lavish' (i.e., alcoholic beverages, limousine travel, valet service, first class travel, etc.) IRS Form 990, Schedule J specifically asks if first-class or charter travel was provided for any officer, director or key employee.

6. **Have clear guidelines when business and personal travel are combined.** When travelers request that a family member or personal companion accompany them, or combine a business and personal trip, separating the business and personal expenses can pose problems (cost of double occupancy vs. single occupancy, separating meal costs, etc). Make sure that all personal expenses are clearly detailed with appropriately itemized receipts to avoid improper reimbursement. IRS Form 990, Schedule J specifically asks if 'travel for companions' was provided for any officer, director or key employee. Make sure any business trips that combine business with pleasure are approved in advance and that the business expense is not greater as a result of combining them (i.e., traveling during a holiday when the cost might be lower at another time of the year).

If your organization relies on stakeholder funding, having formal travel policies and procedures in place will go a long way toward assuring them that you uphold the highest standards of financial integrity. It will also help to alleviate the potential risk of stepping outside of IRS rules and regulations.