

Indiana University Office of Procurement Services

STANDARD OPERATING PROCEDURE

SOP NO:	SOP-PURCH-11
SUBJECT:	Out-of-Pocket Reimbursements for Employees and Students
SOURCE:	University Procurement Services
ORIGINAL DATE OF ISSUE:	7/1/2019
DATE OF LAST REVISION:	
DISCLAIMER:	The information provided in this Standard Operating Procedure (SOP) is designed to provide helpful information on this procedure. Purchasing reserves the right to determine on a case by case basis if a SOP should be adjusted for a particular situation. This SOP is not intended to cover each and every situation nor can it anticipate specific circumstances.
RATIONALE:	<p>Indiana University has several authorized procurement processes that provide efficient, timely, and compliant purchasing methods to units/departments to assist them in securing necessary goods and services, including:</p> <ul style="list-style-type: none"> • Standard purchase orders • Automatic purchase orders • Procurement Cards <p>Procurement processes should not be circumvented; however, on rare occasions, these standard procurement processes may not suffice, and employees and students must make purchases for the benefit of the university using personal funds which require reimbursement. IU units/departments may reimburse employees and students for such purchases, provided the procedures of this Standard Operating Procedure (SOP) are followed. This SOP establishes requirements and provides guidance to units/departments on processing out-of-pocket reimbursement for employees and students.</p>
COMPLIANCE REQUIREMENTS:	<p>Under no circumstance should an employee or student directly pay a supplier for providing a service, and the university will not issue a reimbursement for such payments. Additionally, items <u>restricted</u> from purchase on a P-Card are not eligible for out-of-pocket reimbursement.</p> <p>Out-of-pocket reimbursements that comply with Internal Revenue Service (IRS) Accountable Plan rules and requirements are permitted by university policy. If differences regarding compliance rules and requirements exist between this SOP and the Reimbursement under the Accountable Plan policy, the policy (FIN-ACC-620) shall control. Please refer to University Tax Services TSOP 9.02 for guidance on the rules and requirements of the accountable plan in accordance with Internal Revenue Service (IRS) for reimbursement to employees, students, and outside parties.</p> <ul style="list-style-type: none"> • Receipts are required for all reimbursements, regardless of the dollar amount • Reimbursements submitted between 120 and 365 must be documented with explanation of extraordinary circumstance. In most cases, reimbursements to employees submitted after 120 days are processed as supplementary payroll rather than via an expense report • Reimbursements are not allowed after 365 days following the purchase <p>The unit/department requesting the reimbursement is responsible for assuring compliance with Indiana University policies, for assuring supporting paperwork is clear and complete, and for assuring the Expense Report completes the audit record. Expense Reports not satisfying this review should be returned to the initiator for the required information.</p>

	<p>Memberships and dues in professional organizations should be paid directly by Indiana University to the professional organization rather than reimbursed as an out-of-pocket expense. Payment should be processed to the organization via a university procurement card (P-Card) or a check request document. The same is true for subscriptions to journals, magazines, and other publications. Procurement Services must be involved for memberships requiring a security review and for subscriptions requiring a contract signature or are software STANDARD OPERATING PROCEDURE subscriptions. Contact Purchasing in advance of paying for memberships requiring a security review and for subscriptions requiring a contract signature or software subscriptions.</p>
<p>PROCEDURES:</p>	<p>Chrome River allows employees to enter their own reimbursements. Check with your department to determine whether you are responsible for entering the request, or if it should be submitted via a central administrative office.</p> <p>Upon the request of an employee or student for a permitted out-of-pocket reimbursement, the unit/department should collect the receipt(s) documenting the purchases on behalf of, or the payments to, the university and initiate an Expense Report in Chrome River.</p> <p>Select the 'Out-of-Pocket Reimbursement' option from the Report Type dropdown list. The Report Name and Business Purpose fields on the Expense Report Header are required fields. Include the employee last name and a short description of the nature of the purchase in the Report Name. The Business Purpose field must clearly substantiate the IU business need of the purchase.</p> <p>Add the specific expense(s) to the Expense Report that best represents the purchase category.</p> <p>Complete all required fields on the Expense Report. The Expense Report contains the following form fields:</p> <ul style="list-style-type: none"> • Date (required) – The date of the initial transaction making a purchase for the university • Spent (required) – The amount of the initial transaction • Description – Should be used to explain the nature of, or the reason for, the purchase o Note: The Description field of Expense Reports using the 'Membership Fees and Dues' mosaic tile is required and must identify the membership organization • Allocation (required) – The department account(s) being used to fund the reimbursement • Project Code – Assigns an identifier to particular transactions that may span multiple accounts within an organization or even across multiple organizations • Organization Document Number – Used by some units/departments to categorize transactions (e.g., with a hospitality number or a faculty member's name) <p>Once the form fields are completed, receipt(s) must be uploaded using the 'Add Attachment' button on each added expense tile. Once all of the required information is added to the Expense Report, the report must be submitted using the 'Submit' button. A 'Submit Confirmation' statement displays to certify that all expenses are correct and for a legitimate business purpose. Select 'Submit' to make the certification and route the Expense Report to the transaction approver.</p> <p>If approved, the reimbursement will be issued.</p>
<p>DEFINITIONS:</p>	<p>Accountable Plan – A plan for reimbursing employees and non-employees for business expenses. Under this plan, the reimbursement that the employee receives for the expenses is not included in his/her income. Employees are required to substantiate expenses and return any excess reimbursement within a reasonable period of time. If any requirements are not met then the reimbursement falls under the nonaccountable plan rules.</p> <p>Allowable Expense - A business expense that is permissible under all other IU policies such as hospitality, gifts and others as listed below in the related information section (not inclusive).</p> <p>Business Expense – An expense incurred in achieving the university's mission or directly related to the conduct of official university business and must be:</p> <ul style="list-style-type: none"> • necessary • appropriate to the activity • reasonable in amount

- serve a bona fide university purpose

An expense that serves primarily to furnish the individual with a social or personal benefit is not a business expense. Expenses that primarily benefit a student’s personal education are considered a scholarships or fellowships and are not a business expense. These expenses do not meet the accountable plan criteria.

Employee – Individual working for the university who receives a form W-2, regardless of status as a student.

Equivalent Original Receipt – It is IU’s standard practice that receipt documentation is submitted electronically as a PDF file for supporting documentation. The submission attests the submitted document is the equivalent of original receipt documentation. The submission attests the paperwork will not be submitted for any other reimbursement or disbursement.

Nonaccountable Plan – An arrangement that does not meet one or more of the three requirements listed earlier under the accountable plan (business connection, substantiation, return of funds). Amounts paid under this arrangement are included in the employee’s gross income, must be reported as wages or other compensation on the employee’s Form W-2, and are subject to withholding and payment of employment taxes. For non-employee’s, amounts will be included as income on a Form 1099-MISC.

Reasonable Period of Time – The IRS has established "safe harbors" which can be used to ensure reasonableness. These safe harbors state, based upon a fixed date, an advance made within 30 days of when an expense is paid or incurred, an expense substantiated to IU within 120 days after it is paid or incurred, or an amount returned to IU within 120 days after an expense is paid or incurred will be treated as having occurred within a reasonable period of time. Amounts not meeting these safe harbor guidelines are considered taxable income to the individual unless extraordinary circumstances are documented.

Rare Occasion – An extremely infrequent, unpredictable event, the response to which precludes the use of standard procurement processes. For example, an employee presenting at a distance location, who brought presentation materials believed to be sufficient for the audience count, but needs 12 additional copies is experiencing a rare occasion that would justify making a purchase for the benefit of the university using personal funds that would require reimbursement. An employee waiting until Friday to obtain office supplies using personal funds is not an example of a rare occasion, because the need for office supplies is predictable. The employee must purchase the office supplies using standard procurement processes.

Reimbursement – The act of repaying a person for their purchase of goods with their own funds on behalf of the university.

Student – Individual enrolled in coursework at the university, but not employed in any capacity by the university.

**CROSS
REFERENCE:**

[FIN-ACC-620 Reimbursement Under the Accountable Plan](#)

[TSOP 9.02 Accountable Plan Reimbursements](#)

[FIN-PURCH-01 Purchasing Authority](#)

[FIN-PURCH-02 University Procurement Contracts](#)

[Student Payment Guidelines](#)