



Title:	Propriety of Expenditures
Category:	Fiscal - Expenditures
Source:	President's Office
Prepared by:	Procurement Service Center and Office of University Controller
Approved by:	Vice President for Budget and Finance
Application:	University-wide, for all expenditures from all University funds
Effective Date:	April 21, 2003
Replaces:	Accounting Directive No. 98-1, Propriety of Expenditures (dated December 1, 1997)

INTRODUCTION

The University has established this policy to provide guidelines as to the propriety of expenditures from all University funds.

Guidance has been available to the University through the State Fiscal Rule 2-1, University-wide Accounting Directive No. 98-1, *Propriety of Expenditures*, and campus fiscal policies. Campus fiscal policies include unique lists of acceptable versus unacceptable expenditures and associated limits to use in practice. The subsequent centralization of the procurement function University-wide has created the need to develop a common University-wide policy clarifying guidance for determining the propriety of expenditures, bringing consistency and increased efficiency to the procurement process, as well as assuring compliance with external mandates.

Accordingly, this policy, in combination with the Procurement Service Center Policies and Procedures, is being adopted to provide guidelines as to the propriety of expenditures from all University funds.

DEFINITIONS

Many of the definitions listed below come from the Administrative Policy Statement, *Fiscal Management Roles and Responsibilities*. Please refer to that policy for further clarification.

Associate – An individual who is not employed by the University but is actively involved in furthering the University’s mission in some fashion. Examples of associates include Board of Regent members, employees of University affiliates, official business guests, donors/sponsors, congressional or state legislative members, or off-campus work-study employers. It does **not include** University vendors, non-employee students, alumni, students’ parents, University-sponsored conference attendees, or members of the general public.

Conference – A formal meeting of a number of people for discussion or consultation on a serious, identified topic, where admission is charged to those attending.

Employee – An individual who currently holds a University employment appointment, whether full-time, part-time, temporary, seasonal or hourly.

Fund/Unit Manager – A University employee identified as programmatically responsible and accountable for the activities within a University Operational Unit. Illustrative examples of Fund/Unit Managers and their Operational Units include: a Principal Investigator on a sponsored project, a Chair of an academic department, a Dean of a College or School, and a Director of a department, center, laboratory, or institute, as defined in the Administrative Policy Statement, *Fiscal Management Roles and Responsibilities*. In some instances Department Administrators are delegated full decision making authority over a source of funds (i.e., they have full authority to manage resources and make expenditures). In these instances, the Department Administrator would be the Fund/Unit Manager.

Official Functions – A meeting, meal, or other function (including events that do not meet the definition of Conference above) and meet the following guidelines:

- Is hosted by an associate or employee of the University, attended by guests **and/or** University associates or employees, and held for official University business purposes as defined in the State of Colorado Fiscal Rules, Chapter 2.
- Includes training functions, which is defined as a meeting or other function which is hosted by the University, attended by customers of the University and/or University associates or employees, and held to enhance staff knowledge or to educate customers of the University or University associates or employees that are affected by the University’s operations or regulations. Training functions should have a written agenda, study materials, and be led by an identified presenter(s).
- Does not include student residential functions, which is defined as events that sustain ordinary residential life activities, such as resident hall advisory meetings, resident hall events.
- Includes community relation functions, employee recognition events, goodwill functions, holiday parties, multi-unit events, multi-campus events, recruitment functions, retirement functions, or student events.

Operational Unit – An operational unit is a subset of University operations that incurs financial transactions. An operational unit may be a department, division, program, institute, center, project, or any other activity that incurs financial transactions and is separately identified in the University's financial records as an Organization, a Program or a Project. Though activities funded by general funds, auxiliary activities, and restricted funds may all be under the control of a single Fund/Unit Manager, the activities separately funded constitute separate Operational Units as defined in the Administrative Policy Statement, *Fiscal Management Roles and Responsibilities*. See Illustrative Examples under *Fund/Unit Manager* above.

Oversight Manager - A University employee who has administrative and fiscal oversight for Fund/Unit Managers and their assigned Operational Units. The Oversight Manager is typically the individual to whom the Fund/Unit Manager is held accountable for the programmatic and fiscal operations of Operational Units (reports administratively). Illustrative examples of Oversight Managers include: a Chair of a department that conducts sponsored projects, a Dean of a College or School, a Vice Chancellor of campus functions, and a Chancellor of a campus, as defined in the Administrative Policy Statement, *Fiscal Management Roles and Responsibilities*.

Requestor – The individual initiating the expenditure request.

Reviewer – The individual responsible for approving the expenditure or determining whether expenditures meet the propriety of expenditure requirements of this policy. In most instances, the reviewer is equivalent to the Oversight Manager of the Fund/Unit being charged for the expenditure. For certain expenditures, the reviewer may be required to be certain individuals by other Administrative Policy Statement or written Procurement Service Center policies or procedures (such as Chancellors, Vice Chancellors, etc.).

University Funds – All funds appropriated, generated, awarded, donated or otherwise received by the University regardless of source. Except for University Physicians Incorporated (UPI) funds, this does not include agency funds (fund 80) that the University maintains for legally separate student groups or other entities.

POLICY STATEMENTS

All expenditures paid for with University funds are to meet the propriety criteria established under the “Guidelines” section of this policy. Each expenditure is to be evaluated as to propriety by at least two employees (Requestor and Reviewer) who have: 1) sufficient knowledge to make such evaluation, and 2) the authority to challenge or seek further approvals for questionable transactions. The individuals responsible for such evaluation are as established under the Administrative Policy Statement, *Fiscal Management Roles and Responsibilities*, and other applicable Administrative Policy Statements or written Procurement Service Center Policies and Procedures. Reviewers may not approve their own or supervisor’s personal reimbursement.

The timing of such evaluations shall be as established by administration. Sensitive transactions should be reviewed for the propriety of expenditures prior to execution. It is reasonable to review other transactions, such as Procurement Card purchases, after

completion. The requestor and reviewer of the transaction may be held personally liable for transactions made in violation of this policy, regardless of when the approval occurred.

For all expenditures, if more than one policy applies, the more restrictive policy is to be followed. For example, a sponsor cannot authorize first-class airline tickets since State fiscal rules and University policy prohibit this type of travel.

GUIDELINES

External Requirements for Propriety

State Fiscal Rule 2-1 states, “All expenditures by State Agencies shall meet the following standards of propriety:

1. Are for official State business purposes only; and
2. Are reasonable and necessary under the circumstances.”

In addition, State of Colorado Fiscal Rules (Chapter 5) have requirements as to the propriety of expenditure in the travel area.

State of Colorado Fiscal Rules have additional requirements for Official Functions as defined in Chapter 2 Part 7 in that Official Functions shall be held to achieve University program objectives and shall be limited to reasonable and actual costs. The attendance of University associates or employees at these functions shall be kept to a minimum and shall include only those individuals directly related to the purpose of the function. Expenditures shall be kept to a minimum as they have the potential of being perceived to be for personal benefit and an abuse of University funds.

In addition to State of Colorado requirements, expenditures charged to projects (grants and contracts) funded by external sponsors generally have additional criteria that define the types of expenditures allowed for those projects. The federal government in particular has a number of general criteria that must be met, as defined in OMB Circulars A-21 and A-110, in order to charge expenditures to federally sponsored projects. In addition, each federally sponsored contract and grant may have specific criteria for expenses charged to their projects. In general, sponsored projects may be charged for expenditures that are:

1. Allowable under the terms and conditions of the sponsored project agreement,
2. Consistently treated as direct costs under like circumstances,
3. Reasonable and necessary for the performance of the sponsored project, and,
4. Assignable to a sponsored project relatively easily with a high degree of accuracy.

Additional guidance for sponsored project expenditures is provided by each campus’ sponsored projects and accounting offices.

University Requirements for Propriety

Seven Tests of Propriety

Evaluating the propriety of some University expenditures requires a high degree of judgment. The list below contains seven tests of propriety that form an expenditure evaluation framework. University expenditures will be considered proper if they meet all of the following seven tests of propriety:

1. The expenditures are in the best interests of the University and for official University business only (see written Procurement Service Center Policies and Procedures for additional guidance on specific types of expenditures).
2. The expenditures comply with all existing federal, state, and University laws, rules, and policies.
3. The expenditures do not appear to, nor do they actually, provide any personal benefit to any employee without there being a valid business benefit to the University (see written Procurement Service Center Policies and Procedures for additional guidance on specific types of expenditures).
4. The expenditures are within approved budgets as determined by the appointed Fund/Unit Manager.
5. The expenditures are necessary to the accomplishment of University business, meaning that, without the expenditures, programmatic objectives would be difficult or otherwise more costly to achieve, or that the impact, level or quality of the achievement of these objectives would be reduced.
6. The expenditures are reasonable, meaning the quality and quantity of the goods or services were sufficient to meet, but not exceed, the identified need.
7. The appropriate level of management has approved the expenditures.

If expenditures do not meet all seven tests of propriety, it may not be a proper expenditure. Overall, a good rule of thumb to apply is to think about whether an outsider, such as the general public or an auditor, would consider the expenditure a reasonable and necessary expense for University business.

Reviewers are to first decide whether they are an appropriate reviewer for the transaction, considering policies set forth in other Administrative Policy Statements and Procurement Service Center Policies and Procedures. Then, the reviewer evaluates the expenditure for propriety considering federal, state, and University requirements. Reviewers are to challenge those expenditures that do not appear to be appropriate. If, after making appropriate inquiries, the Reviewer is uncertain that the propriety of the expenditure has been established, the Reviewer is to refer the matter to the next higher-level Organization Manager for further evaluation and approval.