



What Are “Reasonable” Travel Expenses

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I. Introduction

The executive staff members of national and regional trade associations and professional societies are required to travel as part of their job descriptions. Generally non-profit organizations have a policy that states that staff members who travel will be reimbursed for reasonable travel expenses. For staff members, the policy is usually included in the organization's staff employee manual. For the CEO, a travel reimbursement policy with different criteria may be included in the CEO's executive employment contract.

It is common for Boards to raise questions regarding whether the travel expenses incurred by staff members are in fact "reasonable." In order to avoid after the fact questions of whether expenses incurred by a staff member are "reasonable," we recommend that the organization staff prepare specific travel guidelines for approval by the Board as part of the organization employee policy manual.

II. Preferred Vendors

Larger organizations with big staffs may be able to negotiate discount rates with airlines, hotel chains and car rental companies. Even smaller organizations which sponsor a number of good sized meetings each year may be able to enter into contracts with airlines, hotel chains and car rental companies where the organization agrees to use the travel vendor as a preferred vendor and in return, the travel vendor provides discounted rates to the staff whenever they travel. The organization's ability to leverage its total travel/meeting budget for staff discounts will be dependent on the size of the travel/meeting budget.

If your organization has 100 members and you hold two three day meetings a year, your members need a maximum of approximately 600 room nights a year. That is not going to give you much leverage with hotels, airlines or rental car companies. However, if your organization has a large number of members and needs 5,000 room nights a year, you may well be able to enter into multiyear preferred vendor agreements that enables the staff to travel on a discount basis.

Some vendors will offer the organization upgrades rather than discounts. Although this is obviously a staff benefit, it not only eliminates a potential cash savings for the organization but also creates a potential political problem.

The last thing you want to have happen as an association executive, is to get on a plane with an association member and take an aisle seat in first class while the member goes back to a middle seat in coach. Of equal concern would be you getting a luxury suite at a hotel when your members have the cheapest rooms available. Even though you might explain that the hotel or airline upgraded you at no cost to the organization, the perception of your members will be that you are taking advantage of the organization.

III. What is a "Reasonable" Expense?

The definition of "reasonable" in the context of non-profit organization expense levels will vary significantly from organization to organization based on the culture of the organization. If your organization is a professional society and your membership is composed of government employees who operate within the strict travel expense and meal guidelines established by OMB and the employees' respective agency, your organization must adopt travel and expense guidelines that are consistent with the guidelines that your members must follow. Adoption of such parallel guideline will be considered to be "reasonable" by your Board. If your members stay at the Holiday Inn, your staff should stay at the Holiday Inn. If your members have a \$50 per day allowance for food, your staff should have a \$50 per day allowance for food.

By contrast, if your members are all CEO's of major companies and regularly stay at Fairmont Hotels or Ritz Carleton, you have more leeway. If your Board directs you to book meetings at expensive hotels, the staff servicing those meetings should stay at the meeting site during the meeting. For such groups, when the staff is traveling on business not involving a meeting booked at a hotel, the staff should stay at a mid-level hotel such as a Hyatt, Hilton or Marriott. If a staff member is traveling alone, or with other staff members, it is reasonable to have meals at the hotel where you are staying. Alternatively, you can have meals at nearby restaurants with menu prices in the same range as the hotel menu prices. It also would be reasonable to have a glass of wine or a cocktail at dinner. However, if you are dining by yourself, it would not be reasonable to order the most expensive wine on the wine list. A safe test is to be conservative and if you have questions whether certain expenditures are reasonable, don't do it!

Use common sense. If you are renting a car, rent a mid-size car not a convertible. Members will be looking for the staff to pick up the check whenever a group of members gets together for an industry function where the members are acting as representatives of the

organization. Before, you pick a “reasonable” restaurant for your members’ dinner, think of the culture of the organization. Define “reasonableness” in the context of that culture and you usually will not be questioned. If the culture is “McDonald’s,” don’t go to Morton’s Steakhouse.

IV. Full Disclosure - - No Surprises

Every organization staff member including the CEO should submit his or her expenses to another person for approval at least monthly. The usual pattern is for all staff to submit expense reimbursement requests, substantiated by receipts, to the organization's Chief Staff Officer or Chief Finance Officer. The chief staff officer in turn will submit his or her expense reimbursement form to the elected Treasurer. If you have questions whether an anticipated expense will be deemed reasonable, get clearance in advance.

As an example, assume you are going to New York City on a business trip for your organization. Your meeting starts at 9am so you are traveling to New York the afternoon before the meeting and staying at a hotel. You have a reasonably priced hotel in New York at \$300 per night and you estimate that your dinner will cost \$50.00. Total cost to your organization is \$350 which we will assume is "reasonable." You have a cousin who lives in New York and you arrange to have dinner with your cousin. Your cousin tells you that he has an extra bedroom and invites you to stay with him. You accept and in return, pay for your cousin's dinner and a \$60 bottle of wine. You charge the organization for the expense of your dinner, your cousin's dinner and the wine which totals \$160. Clearly this is a good deal for the organization as the organization has saved \$190 over what it would have been charged if you stayed in the hotel.

At the end of the month you, as CEO of your organization put in your request for reimbursement to the organization's volunteer Treasurer. The Treasurer sees the request for reimbursement for the dinner with your cousin. The request says dinner with Joe Jones. The Treasurer knows that you have a cousin in New York whose name is Joe Jones. The Treasurer calls the Chairman of the Board and complains that you are cheating on your expense account. The Chairman calls a telephone meeting of the Executive Committee and all agree that you are cheating on your expense account. You are called by both the Chairman and the Treasurer and asked to explain why you should not be fired for cheating on your expense account. They are not satisfied by your explanation and take the position that if you decided to stay with your cousin rather than at a hotel, that does not justify your taking your cousin out to dinner at the organization’s expense. You are fired.

In retrospect, if you had called the Treasurer in advance and told him that your cousin had offered you an opportunity to stay with him without cost and this would save the

organization \$300 and asked if you could treat your cousin to dinner at the organization's expense, the answer probably would have been "Yes." However, since you did not pre-clear the expense and the Treasurer and the Executive Committee concluded that you were taking advantage of the system, you lost your job.

V. Conclusion

Association executives are responsible for large budgets and the organization's elected leadership must have complete confidence in the honesty and integrity of the staff. Expense reimbursement is an area where the leadership often looks very closely at how the staff is spending the organization's money. Every organization should have a set of explicit guidelines identifying what staff expenses will be reimbursed and the level of reimbursement that is reasonable for each type of expense.

If you are interested in learning more about What Are "Reasonable" Travel Expenses, contact Steve Fellman, GKG Law, P.C. at 202.342.5294 or sfellman@gkglaw.com.