



San Diego Chapters
Present



10 Important Things You Should Know About Allowable & Unallowable Costs

A Seminar with Panel Discussion and Audience Participation
October 21, 2009

Today's Agenda



8:30 Announcements

Quyen - Introduce Facilitator & Panelists

Trish - Introduction/Overview

Diane - Equipment & Building Rental & Lease Costs

Trish - Special Test Equipment & Special Tooling

Diane - Precontract Costs

9:50 - 10:00 Break

Scott - Travel

Diane - Business Meals

10:50 Wrap up



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Introductions

Quyen Tran Moderator, Quantum Magnetics, Inc.

Ms. Tran is the Contract Performance Manager for Quantum Magnetics, Inc. a wholly-owned subsidiary of Morpho Detection, Inc. She has nine years experience in increasingly responsible roles in the area of contracts administration, subcontract administration, government property administration, small business administration and facility security.

She holds a BA in International Business from San Diego State University. She is an active NCMA and AGA member and is currently serving as the San Diego Chapter's Education Director for NCMA. She is a Certified Federal Contracts Manager (CFCM) and Certified Commercial Contracts Manager (CCCM).



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Panel Member

Scott Sorensen, VP-Finance & Deputy Director for Government Compliance at SAIC

Mr. Sorensen has 30+ years experience in government contract accounting including three years with GAO, four years with DCAA, and three years with DCMA. He has 20+ years with SAIC including both line and corporate positions in government compliance with Cost Accounting Standards (CAS) and Federal Acquisition Regulation (FAR) contract cost accounting. Mr. Sorensen holds a MBA from San Diego State University, is a certified public accountant (CPA) in the State of California, and is a CMA and CCA.



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Panel Members

Diane Peluso, DMP Consulting

Ms Peluso has 35+ years of experience in managing personnel and programs responsible for government contracts, grants, and accounting compliance. She is an instructor for San Diego State University (SDSU) Certificate Program in Government Contract Pricing/Accounting, and for Cal Poly Pomona in Cost & Pricing and Government Cost Accounting. She is a member of NCMA and the National Defense Industrial Association (NDIA).



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Panel Members

Trish Carlin, CPA Carlin Consulting Group

Carlin Consulting Group is an independent consulting firm specializing in Government contract accounting.

Ms. Carlin is a CPA in the State of California, and is a member of the American Institute of Certified Public Accountants, California Society of Certified Public Accountants, AGA (currently serving as San Diego Chapter President), and NCMA. She holds a Bachelors of Science in Business Administration from California State University.



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Introduction/Overview

1. The Federal Government has determined that certain costs are not allowed in pricing, cost reimbursements or settlements under contracts with the US Government.

A company is not prohibited from incurring unallowable costs however the Government is unwilling to pay for these costs as direct charges to contracts or through indirect expense pools applied to contracts

Introduction/Overview

2. Allowable or Unallowable?

FAR 31.201-2 Determining allowability – covers how to determine if a cost is allowable or unallowable.

Overarching Concept: A cost is allowable when it complies with ALL of the following: The cost must be:

1. Reasonable
2. Allocable
3. Properly accounted for (Cost Accounting Standards, if applicable, otherwise, Generally Accepted Accounting Principles (GAAP) and practices appropriate to the circumstances)
4. In compliance with the terms of the contract
5. Not specifically disallowed (limitations set forth in FAR Part 31.2)

Introduction/Overview

3. Contractors are responsible for:

Appropriate Accounting: if accounting practices are inconsistent with FAR 31.2, costs resulting from such inconsistent practices in excess of the amount that would have resulted from using practices consistent with FAR 31.2 are unallowable

Maintaining Adequate Records/Documentation (including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in FAR 31.2 and agency supplements)

Introduction/Overview

3. Contractors are responsible for (continued):

Demonstrating Allowability/Allocability of Costs

The contracting officer may disallow all or part of a claimed cost that is inadequately supported



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Introduction/Overview

4. FAR 31.205 covers some selected allowable and unallowable costs, but it does not address every element of cost

The absence of a FAR provision addressing a specific type of cost does not mean that it is either allowable or unallowable

If neither the contract nor the FAR dictates the treatment of specific costs, DCAA and the Federal Circuit determines the appropriate treatment by looking to the "principles and standards" in FAR Part 31.2 and the treatment of similar or related items



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Equipment & Building Rental & Lease Costs

1. FAR 31.205-36 Rental Costs. Applicable to the cost of renting or leasing real or personal property acquired under "operating leases" as defined in Statement of Financial Accounting Standards No. 13 (FAS-13), Accounting for Leases (See 31.205-11 for Capital Leases)



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Equipment & Building Rental & Lease Costs

2. Allowable costs include:

- a) Rental costs under operating leases, to the extent that the rates are reasonable at the time of the lease decision, after consideration of –
 - Rental costs of comparable property, if any;
 - Market conditions in the area;
 - The type, life expectancy, condition, and value of the property leased;
 - Alternatives available; and
 - Other provisions of the agreement

Equipment & Building Rental & Lease Costs

2. Allowable costs include (continued):

- b) Rental costs under a sale and leaseback arrangement only up to the amount the contractor would be allowed if the contractor retained title

- c) Charges in the nature of rent for property between any divisions, subsidiaries, or organizations under common control, to the extent that they do not exceed the normal costs of ownership, such as depreciation, taxes, insurance, facilities capital cost of money, and maintenance

Equipment & Building Rental & Lease Costs

2. Allowable costs include (continued):

- d) FAR 31.205-10 Cost of money an imputed cost that is not a form of interest on borrowings which is an unallowed cost per FAR 31.205-20.

Equipment & Building Rental & Lease Costs

3. Recently, DCAA was taking exception to rental costs of a small business contractor, claiming the cost was a related party transaction as an owner was the lessor or leasing the facility to the contractor. The lessor was a minority (less than 50% owner). DCAA claimed that since the owner of the building was also an owner of the company, it qualified as a related party transaction and that the FAR limited allowable costs to ownership costs, depreciation, insurance, taxes and insurance. This was a large disallowance to the contractor.



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Equipment & Building Rental & Lease Costs

3. FAR (FAR 31-205-36) states allowable costs are limited to ownership costs provided there is "common control" between the contractor owner and the building owner. The DCAA's own audit guidance states the same concept. There was not any common ownership. The primary or majority owner of the contractor did not have any ownership in the building and the owner of the building was a minority (less than 50% ownership) in the contractor. So in this case the allowable costs were not limited to ownership costs. The full value of rental costs, provided they were reasonable, was allowable.



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Equipment & Building Rental & Lease Costs

4. Leases between Organizations under Common Control

The FAR does not define the term "common control." Whether common control exists depends upon all the facts and circumstances. The case law decisions look to whether both organizations are effectively controlled by the same person or entity.



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Equipment & Building Rental & Lease Costs

4. Leases between Organizations under Common Control (continued)

Factors to consider include stock ownership, interlocking management or ownership, identity of interests among family members, shared facilities and equipment, common use of employees, and other contractual or financial relationships (FAR 9.403 (listing "indicia of control" for purpose of suspension and debarment); FAR 19.101 (defining "affiliates" for purpose of small business size standards).

Equipment & Building Rental & Lease Costs

5. Unallowable Depreciation - FAR 31.205-11;

- Where either the declining balance method or the class life asset depreciation range is used, (capital lease), the residual value need not be deducted from capitalized cost to determine depreciation costs, however, depreciation costs that would significantly reduce the book value of a tangible asset below its residual value is unallowable.
- Depreciation, rental or use charges are unallowed on property acquired from the Government at no cost by the contractor or by any division, subsidiary or affiliate under contractor's common control.

Equipment & Building Rental & Lease Costs

5 Unallowable Depreciation - FAR 31.205-11; (continued)

- Sale and leaseback of property, - allowable depreciation of reacquired property shall be based on NBV of asset as of date the contractor originally became a lessee of the property in sale and leaseback arrangement
- If it is determined that the terms of the capital lease have been significantly affected by the fact that the lessee and lessor are related, depreciation charges are not allowed in excess of those that would have occurred between leases of unrelated parties.

Equipment & Building Rental & Lease Costs

6. Leasing Equipment Under Government Contracts - Types of Leases

- A lease is essentially an agreement which transfers some of the rights and risks of ownership from the lessor to the lessee for the period of the lease.
- An operating lease conveys only the right to use the property for the lease term, and usually minimal risks. The lessee must return the property in reasonably good condition at the end of the lease term while it still has considerable service potential. The lessee pays rental charges. It is often cancelable by either party. Refer to FAR 31.205-36 rental costs.

Equipment & Building Rental & Lease Costs

6. Leasing Equipment Under Government Contracts - Types of Leases (continued)

- A capital lease conveys not only the right to use the property, but substantially all the rights and risks of ownership. It is essentially considered a form of installment purchase.
- Trouble arises when:
 - (1) when the contractor attempts to treat a capital lease as an operating lease, or
 - (2) the contractor attempts to treat a capital lease as a direct charge to a particular contract because that one contract is receiving all or most of the benefits of that property.

Equipment & Building Rental & Lease Costs

7. FAR 31.205-17 Idle facilities and idle capacity costs. Costs of idle facilities are unallowable unless the facilities – (1) Are necessary to meet fluctuations in workload; or (2) Were necessary when acquired and are now idle because of changes in requirements, production economies, reorganization, termination, or other causes which could not have been reasonable foreseen

8. Costs of idle facilities are allowable for a reasonable period, ordinarily not to exceed 1 year, depending upon the initiative taken to use, lease, or dispose of the idle facilities (see 31.205-42)

Equipment & Building Rental & Lease Costs

9 Costs of idle facilities or idle capability means costs such as maintenance, repair, housing, rent, and other related costs; e.g. property taxes, insurance, and depreciation. "Idle capacity" means the unused capacity of partially used facilities. It is the difference between that which a facility could achieve under 100 percent operating time on a one-shift basis, less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays, and the extent to which the facility was actually used to meet demands during the accounting period

Your Questions



Special Test Equipment & Special Tooling (jigs & fixtures)

1. Special tooling: jigs, dies, fixtures, molds, patterns, taps, gauges, other equipment and manufacturing aids, all components of these items, and replacement of these items, which are of such a specialized nature that without substantial modification or alteration their use is limited to the development of production of particular supplies or parts thereof or to the performance of particular services.

It does not include material, special test equipment, facilities (except foundations and similar improvements necessary for installing special tooling), general or special machine tools, or similar capital items.

Special Test Equipment & Special Tooling (jigs & fixtures)

- 2. The cost of special tooling and special test equipment is generally allowable
- 3. Special test equipment: either single or multipurpose integrated test units engineered, designed, fabricated, or modified to accomplish special purpose testing in performing a contract

Special Test Equipment & Special Tooling (jigs & fixtures)

- 4. Cost exceptions:
 - a) Items acquired by the contractor before the effective date of the contract (or replacement of such items), whether or not altered or adapted for use in performing the contract, and
 - b) Items which the contract schedule specifically excludes, shall be allowable only as depreciation or amortization

Special Test Equipment & Special Tooling (jigs & fixtures)

- 5. When items are disqualified as special tooling or special test equipment because with minor expense they can be made suitable for general purpose use and have a value as such commensurate with their value as special tooling or special test equipment, the cost of adapting the items for use under the contract and the cost of returning them to their prior configuration are allowable.

Special Test Equipment & Special Tooling (jigs & fixtures)

- 6. The Government acquires title to special tooling reimburse under cost reimbursement contracts through incorporation in the contract of the Government Property clause
- 7. Under fixed price contracts containing the Special Tooling clause, the Government may elect to acquire title in the special tooling, direct the contractor to transfer the special tooling to another contract requiring its use, or direct the contractor to sell the special tooling for scrap

Special Test Equipment & Special Tooling (jigs & fixtures)

- 8. An area of frequent dispute is whether an item of tooling or test equipment is "special" or "general purpose". Particularly under a cost type contract or in the context of a termination for convenience, the contractor would generally prefer that an item be characterized as special tooling in order to recover its costs immediately, while the Government would generally prefer that the item be characterized as general purpose tooling in order to delay reimbursement of the costs and spread some portion over the contractor's other contracts

Special Test Equipment & Special Tooling (jigs & fixtures)

- 9. The difference between "special" and "general purpose" tooling and test equipment is that special tooling and test equipment is acquired specifically for and, without costly modifications, useable only on the instant contract; whereas general purpose tooling and test equipment is useable on other contracts
- 10. When a contractor acquires special tooling or test equipment before the effective date of a contract, its recovery under the contract is limited to an allocable portion of annual depreciation or amortization during the performance period of the contract

Your Questions



Precontract Costs

1. Precontract costs are costs incurred before the effective date of the contract
2. FAR 31.205-32 Precontract Costs are generally allowable if:
 - the costs were incurred directly pursuant to the negotiation of the contract and in anticipation of award;
 - the costs were necessary to comply with the proposed contract delivery schedule; and
 - the costs would have been allowable if they had been incurred after award

Precontract Costs

3. FAR 31.109 suggests that the parties enter into an advance agreement to avoid disputes

Advance agreements rely on the reasonableness, the allocability and the allowability under specific cost principles at Subparts 31.2,31.3,31.6 and 31.7, Contracting Officers' and contractors seek agreement, however an advance agreements is not an absolute requirement and the absence of this on any cost will not in itself affect the allowability under specific cost principles under FAR part 31.2

Precontract Costs

4. Ask a Professor — Question & Answer

Can Letter of Intent be used when funding has not been received?
Posted to Contract Administration on 9/13/2007 12:00:00 AM

The Scenario—

A new contract is being awarded for FY08. There will be a blackout period during which no funding can be processed and the period is longer than normal due to NAVY ERP being rolled out during this time. One platform has not received their FY08 funding, but needs to retain their critical CSS. The contractor is not willing to allow their personnel to work at risk due to the length of the blackout period.

The Question—

Can a Letter of Intent from the COR be given to the contractor to assure funding so that the CSS can remain on the job?

Precontract Costs

4. Ask a Professor — Question & Answer (continued)

The short answer is a definite **NO**. Promising to pay for something before funds are available is a clear violation of the Anti-Deficiency Act. Now, I'll provide a longer answer.

You could use the clause at **FAR 52.232-18 Availability of Funds** as part of your Letter of Intent. The use is prescribed at **FAR 32.705-2** to wit:

Precontract Costs

4. Ask a Professor — Question & Answer (continued)

32.705-1 -- Clauses for Contracting in Advance of Funds.

*(a) Insert the clause at **52.232-18, Availability of Funds**, in solicitations and contracts if the contract will be chargeable to funds of the new fiscal year and the contract action will be initiated before the funds are available. Another alternative is to authorize precontract costs under **FAR 31.205-32**:*

Precontract Costs

4. Ask a Professor — Question & Answer (continued)

31.205-32 -- Precontract Costs.

Precontract costs means costs incurred before the effective date of the contract directly pursuant to the negotiation and in anticipation of the contract award when such incurrence is necessary to comply with the proposed contract delivery schedule. These costs are allowable to the extent that they would have been allowable if incurred after the date of the contract (see [31.109](#)).

Precontract Costs

4. Ask a Professor — Question & Answer (continued)

The methods may provide the contractor a comfort level to go out on risk and continue performance of the contract. However, neither method promises to pay if funds do not become available.

5. DCAA will question costs outside the contract period of performance as unallowable – it is the contractors responsibility to provide support.

Your Questions



Travel

1. The regulations governing contractor personnel are the Federal Travel Regulation (FAR) 31.205-46 Travel Costs and any specific applicable contractual requirements.

Other than the CONUS & OCONUS Lodging and Meals and Incidental expense definitions and Per Diem ceilings and Mileage rates and some definitions, the Federal Travel Regulations (FTR) and Joint Travel Regulations (JTR) do not apply to contractor employees

Travel

2. FAR 31.205-46 and DCAA require:

- Valid/allowable business purpose for the trip – adequate explanation/documentation
- Supervisory approval before the trip occurs - use a standard form/process where possible
- Use of "Lowest Logical airfare" include a definition and use it. Document any exceptions
- Lodging Per Diem: define the location in policy (where working or where lodging)

Travel

2. FAR 31.205-46 and DCAA require (continued):

- Lodging/meals per diems adjust for 1st and last day of travel
- Fly America Act (FAR 52.247-63) - follow for all direct foreign travel, document all exceptions
- 300% Rule - define in policy and approve before travel.
- Room taxes - CONUS excluded from Per Diem, OCONUS included in Per Diem
- Non-employee (consultants, temp employees, independent contractors, etc) business travel – are not subject to FAR 31.205-46 restrictions, but must be reasonable

Travel

3. Be aware of the documentation requirements of FAR 52.247-63 Air Transportation by U.S.-Flag Carriers (Fly America) contract clause for non-US flag foreign carrier air travel
4. Per FAR, no receipts are required for travel expenses under \$75 unless the company's established practice is for a lower threshold

Travel

5. If a company reimburses its employees at per diem for lodging, they still need lodging receipts to document that the cost was incurred
Since DCAA will require a lodging receipt no matter the cost to prove that lodging costs were incurred to comply with the requirement found at FAR 31.205-46(a)(1)
6. If a trip crosses multiple Task Orders' periods of performance (PoP)... establish a policy to either charge the trip to the original Task Order and document the reason why the other Task Order did not "cause the trip" or prorate the costs with the employee's labor charges

Travel

7. Contractors can not bill travel costs until the trip is taken. This can be difficult to manage particularly for airfares that may be purchased in advance of the trip
8. If the traveler has a business meal/conference during the trip, the daily per diem amount must be adjusted to avoid duplicate payments. DCAA may question any business meal amounts that exceed the meal per diems for employees on travel.

Travel

Some newly emerging travel areas:

9. DCAA has questioned coach class airfares that exceed the DOT average airfares for the destinations on the basis that the incurred coach fares were not the lowest logical airfares.
10. DCAA has requested supplementary documentation to support the business purpose of the travel: trip reports, meeting agendas, etc. long after the travel was completed

Your Questions



Business Meals

1. Alcohol is expressly unallowable per FAR 31.205-51
2. FAR 31.205-46(a)(2) limits travel reimbursement to the maximum per diem specified in the applicable Federal regulation. This per diem amount includes meals and incidental expenses

The employee in travel status should not be reimbursed for meals in excess of the amount allowed under FAR 31.205-46. By submitting a claim for reimbursement for meals as a business meeting expense, the traveling employee is being reimbursed twice for the same meal

Business Meals

3. Allowability of the costs depends on the purpose of the business meal. FAR 31.205-43, Trade, business, technical and professional activity costs, allows costs (including subsistence) when the primary purpose of the meeting is the dissemination of technical information or the stimulation of production, provided the costs meet the other requirements controlling allowability (FAR 31.201-2). Determination as to whether the expenses qualify as an allowable cost under FAR 31.205-43 or an unallowable social activity under FAR 31.205-14, Entertainment costs, should be made on a case-by-case basis.

Business Meals

4. The determination of allowability requires knowledge concerning the purpose and nature of activity at the business meeting. The contractor should maintain adequate records which document the dates and location of the meeting, the names and titles of employees and guests in attendance, the guest's company name, the purpose of the meeting, and the cost of the meeting, by item. When satisfactory support is not maintained, the claimed meal cost is unallowable.

Business Meals

5. "Ask the Professor" question & response:

Q: Our employees sometimes submit reimbursement requests for charges incurred during a meeting at the office or local restaurant for food/meals. These are not as a result of travel or seminars. We have been posting as unallowable but would like a clearer guideline.

Business Meals

R: Generally, the cost of meals for contractor employees is unallowable unless the employee is on official company travel or the meals are an integral part of a bona fide business meeting as described in FAR 31.205-43(c). This is because the cost of meals is generally considered a personal expense of the employee and/or is provided as entertainment (FAR 31.205-14). However, there are some situations, such as a technical meeting luncheon with a speaker, where the meal is an inseparable part of the meeting agenda. This is in contrast to the situation where business may be incidentally discussed during a meal. In this latter case, the cost of the meal is unallowable.

Business Meals

R: In addition, the fact that the meal may be an integral part of a meeting is not sufficient to make the cost allowable. The meeting itself must be for an allowable purpose. For example, the cost of a meal that is integral to a meeting designed to entertain employees would still be an unallowable entertainment cost (per FAR 31.205-14). To be a "bona fide" business meeting, the meeting must meet the definition in FAR 31.205-43(c) which allows costs (if not prohibited elsewhere in FAR Part 31) when the principal purpose of the meeting ". . . is the dissemination of trade, business, technical or professional information or the stimulation of production or improved productivity."

Business Meals

Additionally, the costs must be reasonable (in nature and amount) per FAR 31.201-3. For example, if a contractor provides meals for employees at a full-day staff conference but does not continue the meeting through the lunch period, it is likely the costs would be considered unallowable and/or unreasonable. Even if the staff meeting was continued through the lunch period, the costs may still be considered unallowable and/or unreasonable because it is unlikely that a lunch break would irreparably damage the meeting purpose.

Business Meals

6. DCAA has been using the Per Diem rate for determining the reasonableness of a meal
7. Generally - Meals that are unallowed:
 - a. Meals during normal work days
 - b. Meals included in the price of lodging, such as full breakfast at a B & B's, where a single fee includes meals and lodging.
 - c. Meals already included in a conference registration fee
 - d. Meals for a traveling spouse or associate of a non work related purpose

Business Meals

8. Treating customers to a meal could be an ethics or gift violation, E.O. 11222 prohibits federal employees from accepting Gratuities – questioned as unnecessary and unreasonable

Your Questions



FEDERAL ACQUISITION REGULATION (FAR)

UNALLOWABLE COSTS

Costs that are expressly unallowable or mutually agreed to be unallowable, shall be identified and excluded from any billing, claim, or proposal applicable to a Government contract (FAR 31.201-6).

Item	Description	FAR Ref. #
1	Public relations ; excluding: costs specifically required by contract, responding to inquiries on company policies and activities, conducting general liaison, participation in community service activities, plant tours and open houses.	31.205-1(f)
2	Product advertising/ company image enhancement	31.205-1(f)(1)
3	Trade shows which do not contain a significant effort to promote export sales of products normally sold to the US Government.	31.205-1(f)(2)
4	Sponsoring meetings, conventions, seminars, and other special events when the principal purpose is <i>other than</i> dissemination of technical information or stimulation of production	31.205-1(f)(3)
5	Corporate celebrations and new product announcements	31.205-1(f)(4)
6	Promotional material, motion pictures, videotapes, brochures, handouts, magazines, other media	31.205-1(f)(5)
7	Souvenirs, models, imprinted clothing, buttons and other mementos provided to customers or the public	31.205-1(f)(6)
8	Memberships in civic and community organizations	31.205-1(f)(7)
9	Bad debts , including associated legal and collection expenses	31.205-3
10	Personal use of company automobile	31.205-6(m)(2)
11	Contributions and donations , excluding costs of participation in community service activities (e.g. blood bank drives, charity drives, savings bond drives, disaster assistance)	31.205-8
12	Rentals and leases between related parties , amounts in excess of the cost of ownership	31.205-11(m)(2)
13	Employee morale and recreation ; excluding employee's participation in company sponsored sports teams or employee organizations designed to improve company loyalty, teamwork, or physical fitness.	31.205-13
14	Employee gifts ; excluding awards for performance or achievements	31.205-13(b)
15	Entertainment, social activities, social club memberships	31.205-14
16	"Key man" insurance , except when insurance represents additional compensation	31.205-19
17	Interest and other financial costs	31.205-20
18	Legislative & executive lobbying costs	31.205-22,-50
19	Selling costs ; including: product advertising, broadly-targeted sales efforts, long-range market planning, corporate image enhancement. Excluding: direct selling efforts (person-to-person contact), economic long-range planning, broadly-targeted selling efforts and short-range market planning in connection with significant effort to promote export sales of products normally sold to the US Gov't, costs specifically required by the contract.	31.205-38
20	Federal income taxes	31.205-41
21	Travel , costs in excess of maximum per diem rates set by Government regulation and costs in excess of standard commercial aircraft fares	31.205-46
22	Legal, accounting, and consulting fees directly associated with organization, reorganization, defense of anti-trust suits, prosecution of lawsuits against the Government and patent infringement suits (unless approved by the contract terms) and fraud defense if convicted.	31.205-47
23	Goodwill	31.205-49
24	Alcoholic beverages	31.205-51
25	Executive Compensation amounts in excess of statutory limits (\$684,181 FY 09+)	31.205-6

Items listed are for general reference use only and are not intended to be all inclusive.
Refer to FAR 31.205 for more specific detailed descriptions.

FAR 31.109 Advance Agreements.

(a) The extent of allowability of the costs covered in this part applies broadly to many accounting systems in varying contract situations. Thus, the reasonableness, the allocability and the allowability under the specific cost principles at [Subparts 31.2, 31.3, 31.6, and 31.7](#) of certain costs may be difficult to determine. To avoid possible subsequent disallowance or dispute based on unreasonableness, unallocability or unallowability under the specific cost principles at [Subparts 31.2, 31.3, 31.6, and 31.7](#), contracting officers and contractors should seek advance agreement on the treatment of special or unusual costs and on statistical sampling methodologies at [31.201-6\(c\)](#). However, an advance agreement is not an absolute requirement and the absence of an advance agreement on any cost will not, in itself, affect the reasonableness, allocability or the allowability under the specific cost principles at [Subparts 31.2, 31.3, 31.6, and 31.7](#) of that cost.

(b) Advance agreements may be negotiated either before or during a contract but should be negotiated before incurrence of the costs involved. The agreements must be in writing, executed by both contracting parties, and incorporated into applicable current and future contracts. An advance agreement shall contain a statement of its applicability and duration.

(c) The contracting officer is not authorized by this [31.109](#) to agree to a treatment of costs inconsistent with this part. For example, an advance agreement may not provide that, notwithstanding [31.205-20](#), interest is allowable.

(d) Advance agreements may be negotiated with a particular contractor for a single contract, a group of contracts, or all the contracts of a contracting office, an agency, or several agencies.

(e) The cognizant administrative contracting officer (ACO), or other contracting officer established in Part 42, shall negotiate advance agreements except that an advance agreement affecting only one contract, or class of contracts from a single contracting office, shall be negotiated by a contracting officer in the contracting office, or an ACO when delegated by the contracting officer. When the negotiation authority is delegated, the ACO shall coordinate the proposed agreement with the contracting officer before executing the advance agreement.

(f) Before negotiating an advance agreement, the Government negotiator shall --

- (1) Determine if other contracting offices inside the agency or in other agencies have a significant unliquidated dollar balance in contracts with the same contractor;
- (2) Inform any such office or agency of the matters under consideration for negotiation; and
- (3) As appropriate, invite the office or agency and the responsible audit agency to participate in prenegotiation discussions and/or in the subsequent negotiations.

(g) Upon completion of the negotiation, the sponsor shall prepare and distribute to other interested agencies and offices, including the audit agency, copies of the executed agreement and a memorandum providing the information specified in [15.406-3](#), Price negotiation memorandum, as applicable.

(h) Examples for which advance agreements may be particularly important are --

- (1) Compensation for personal services, including but not limited to allowances for off-site pay, incentive pay, location allowances, hardship pay, cost of living differential, and termination of defined benefit pension plans;
- (2) Use charges for fully depreciated assets;
- (3) Deferred maintenance costs;
- (4) Precontract costs;
- (5) Independent research and development and bid and proposal costs;

- (6) Royalties and other costs for use of patents;
- (7) Selling and distribution costs;
- (8) Travel and relocation costs, as related to special or mass personnel movements, as related to travel via contractor-owned, -leased, or -chartered aircraft; or as related to maximum per diem rates;
- (9) Costs of idle facilities and idle capacity;
- (10) Severance pay to employees on support service contracts;
- (11) Plant reconversion;
- (12) Professional services (e.g., legal, accounting, and engineering);
- (13) General and administrative costs (e.g., corporate, division, or branch allocations) attributable to the general management, supervision, and conduct of the contractor's business as a whole. These costs are particularly significant in construction, job-site, architect-engineer, facilities, and Government-owned contractor operated (GOCO) plant contracts (see [31.203\(h\)](#));
- (14) Costs of construction plant and equipment (see [31.105\(d\)](#));
- (15) Costs of public relations and advertising;
- (16) Training and education costs (see [31.205-44\(h\)](#)); and
- (17) Statistical sampling methods (see [31.201-6\(c\)\(4\)](#)).

FAR 31.201-2 Determining Allowability.

(a) A cost is allowable only when the cost complies with all of the following requirements:

- (1) Reasonableness.
- (2) Allocability.
- (3) Standards promulgated by the CAS Board, if applicable; otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
- (4) Terms of the contract.
- (5) Any limitations set forth in this subpart.

(b) Certain cost principles in this subpart incorporate the measurement, assignment, and allocability rules of selected CAS and limit the allowability of costs to the amounts determined using the criteria in those selected standards. Only those CAS or portions of standards specifically made applicable by the cost principles in this subpart are mandatory unless the contract is CAS-covered (see Part 30). Business units that are not otherwise subject to these standards under a CAS clause are subject to the selected standards only for the purpose of determining allowability of costs on Government contracts. Including the selected standards in the cost principles does not subject the business unit to any other CAS rules and regulations. The applicability of the CAS rules and regulations is determined by the CAS clause, if any, in the contract and the requirements of the standards themselves.

(c) When contractor accounting practices are inconsistent with this [Subpart 31.2](#), costs resulting from such inconsistent practices in excess of the amount that would have resulted from using practices consistent with this subpart are unallowable.

(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.

FAR 31.201-3 Determining Reasonableness

(a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Reasonableness of specific costs must be examined with particular care in connection with firms or their separate divisions that may not be subject to effective competitive restraints. No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the contracting officer or the contracting officer's representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable.

(b) What is reasonable depends upon a variety of considerations and circumstances, including --

(1) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance;

(2) Generally accepted sound business practices, arm's-length bargaining, and Federal and State laws and regulations;

(3) The contractor's responsibilities to the Government, other customers, the owners of the business, employees, and the public at large; and

(4) Any significant deviations from the contractor's established practices.

FAR 31.205-10 Cost of money.

(a) *General.* Cost of money—

(1) Is an imputed cost that is not a form of interest on borrowings (see [31.205-20](#));

(2) Is an "incurred cost" for cost-reimbursement purposes under applicable cost-reimbursement contracts and for progress payment purposes under fixed-price contracts; and

(3) Refers to—

(i) Facilities capital cost of money (48 CFR 9904.414); and

(ii) Cost of money as an element of the cost of capital assets under construction (48 CFR 9904.417).

(b) Cost of money is allowable, provided—

(1) It is measured, assigned, and allocated to contracts in accordance with 48 CFR 9904.414 or measured and added to the cost of capital assets under construction in accordance with 48 CFR 9904.417, as applicable;

(2) The requirements of 31.205-52, which limit the allowability of cost of money, are followed; and

(3) The estimated facilities capital cost of money is specifically identified and proposed in cost proposals relating to the contract under which the cost is to be claimed.

(c) Actual interest cost in lieu of the calculated imputed cost of money is unallowable.

FAR 31.205-11 Depreciation.

(a) Depreciation on a contractor's plant, equipment, and other capital facilities is an allowable contract cost, subject to the limitations contained in this cost principle. For tangible personal property, only estimated residual values that exceed 10 percent of the capitalized cost of the asset need be used in establishing depreciable costs. Where either the declining balance method of depreciation or the class life asset depreciation range system is used, the residual value need not be deducted from capitalized cost to determine depreciable costs. Depreciation cost that would significantly reduce the book value of a tangible capital asset below its residual value is unallowable.

(b) Contractors having contracts subject to 48 CFR 9904.409, Depreciation of Tangible Capital Assets, shall adhere to the requirement of that standard for all fully CAS-covered contracts and may elect to adopt the standard for all other contracts. All requirements of 48 CFR 9904.409 are applicable if the election is made, and contractors must continue to follow it until notification of final acceptance of all deliverable items on all open negotiated government contracts.

(c) For contracts to which 48 CFR 9904.409 is not applied, except as indicated in paragraphs (g) and (h) of this subsection, allowable depreciation shall not exceed the amount used for financial accounting purposes, and shall be determined in a manner consistent with the depreciation policies and procedures followed in the same segment on non-Government business.

(d) Depreciation, rental, or use charges are unallowable on property acquired from the Government at no cost by the contractor or by any division, subsidiary, or affiliate of the contractor under common control.

(e) The depreciation on any item which meets the criteria for allowance at price under [31.205-26\(e\)](#) may be based on that price, provided the same policies and procedures are used for costing all business of the using division, subsidiary, or organization under common control.

(f) No depreciation or rental is allowed on property fully depreciated by the contractor or by any division, subsidiary, or affiliate of the contractor under common control. However, a reasonable charge for using fully depreciated property may be agreed upon and allowed (but, see [31.109\(h\)\(2\)](#)). In determining the charge, consideration shall be given to cost, total estimated useful life at the time of negotiations, effect of any increased maintenance charges or decreased efficiency due to age, and the amount of depreciation previously charged to Government contracts or subcontracts.

(g) Whether or not the contract is otherwise subject to CAS the following apply:

(1) The requirements of [31.205-52](#) shall be observed.

(2) In the event of a write-down from carrying value to fair value as a result of impairments caused by events or changes in circumstances, allowable depreciation of the impaired assets is limited to the amounts that would have been allowed had the assets not been written down (see [31.205-16\(g\)](#)). However, this does not preclude a change in depreciation resulting from other causes such as permissible changes in estimates of service life, consumption of services, or residual value.

(3) (i) In the event the contractor reacquires property involved in a sale and leaseback arrangement, allowable depreciation of reacquired property shall be based on the net book value of the asset as of the date the contractor originally became a lessee of the property in the sale and leaseback arrangement—

(A) Adjusted for any allowable gain or loss determined in accordance with [31.205-16\(b\)](#); and

(B) Less any amount of depreciation expense included in the calculation of the amount that would have been allowed had the contractor retained title under [31.205-11\(h\)\(1\)](#) and [31.205-36\(b\)\(2\)](#).

(ii) As used in this paragraph (g)(3), reacquired property is property that generated either any depreciation expense or any cost of money considered in the calculation of the limitations under [31.205-11\(h\)\(1\)](#) and [31.205-36\(b\)\(2\)](#) during the most recent accounting period prior to the date of reacquisition.

(h) A “capital lease,” as defined in Statement of Financial Accounting Standard No. 13 (FAS-13), Accounting for Leases, is subject to the requirements of this cost principle. (See [31.205-36](#) for Operating Leases.) FAS-13 requires that capital leases be treated as purchased assets, *i.e.*, be capitalized, and the capitalized value of such assets be distributed over their useful lives as depreciation charges or over the leased life as amortization charges, as appropriate, except that--

(1) Lease costs under a sale and leaseback arrangement are allowable only up to the amount that would be allowed if the contractor retained title, computed based on the net book value of the

asset on the date the contractor becomes a lessee of the property adjusted for any gain or loss recognized in accordance with [31.205-16\(b\)](#); and

(2) If it is determined that the terms of the capital lease have been significantly affected by the fact that the lessee and lessor are related, depreciation charges are not allowable in excess of those that would have occurred if the lease contained terms consistent with those found in a lease between unrelated parties.

FAR 31.205-14 Entertainment Costs.

Costs of amusement, diversions, social activities, and any directly associated costs such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable. Costs made specifically unallowable under this cost principle are not allowable under any other cost principle. Costs of membership in social, dining, or country clubs or other organizations having the same purposes are also unallowable, regardless of whether the cost is reported as taxable income to the employees.

FAR 31.205-17 Idle Facilities and Idle Capacity Costs.

(a) *Definitions.* As used in this subsection--

“Costs of idle facilities or idle capacity” means costs such as maintenance, repair, housing, rent, and other related costs; e.g., property taxes, insurance, and depreciation.

“Facilities” means plant or any portion thereof (including land integral to the operation), equipment, individually or collectively, or any other tangible capital asset, wherever located, and whether owned or leased by the contractor.

“Idle capacity” means the unused capacity of partially used facilities. It is the difference between that which a facility could achieve under 100 percent operating time on a one-shift basis, less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays, and the extent to which the facility was actually used to meet demands during the accounting period. A multiple-shift basis may be used in the calculation instead of a one-shift basis if it can be shown that this amount of usage could normally be expected for the type of facility involved.

“Idle facilities” means completely unused facilities that are excess to the contractor’s current needs.

(b) The costs of idle facilities are unallowable unless the facilities --

(1) Are necessary to meet fluctuations in workload; or

(2) Were necessary when acquired and are now idle because of changes in requirements, production economies, reorganization, termination, or other causes which could not have been reasonably foreseen. (Costs of idle facilities are allowable for a reasonable period, ordinarily not to exceed 1 year, depending upon the initiative taken to use, lease, or dispose of the idle facilities (but see [31.205-42](#))).

(c) Costs of idle capacity are costs of doing business and are a factor in the normal fluctuations of usage or overhead rates from period to period. Such costs are allowable provided the capacity is necessary or was originally reasonable and is not subject to reduction or elimination by subletting, renting, or sale, in accordance with sound business, economics, or security practices. Widespread idle capacity throughout an entire plant or among a group of assets having substantially the same function may be idle facilities.

(d) Any costs to be paid directly by the Government for idle facilities or idle capacity reserved for defense mobilization production shall be the subject of a separate agreement.

FAR 31.205-20 Interest and other financial costs.

Interest on borrowings (however represented), bond discounts, costs of financing and refinancing capital (net worth plus long-term liabilities), legal and professional fees paid in connection with preparing prospectuses, and

costs of preparing and issuing stock rights are unallowable (but see [31.205-28](#)). However, interest assessed by State or local taxing authorities under the conditions specified in [31.205-41\(a\)\(3\)](#) is allowable.

FAR 31.205-32 Precontract Costs.

Precontract costs means costs incurred before the effective date of the contract directly pursuant to the negotiation and in anticipation of the contract award when such incurrence is necessary to comply with the proposed contract delivery schedule. These costs are allowable to the extent that they would have been allowable if incurred after the date of the contract (see [31.109](#)).

FAR 31.205-36 Rental Costs.

(a) This subsection is applicable to the cost of renting or leasing real or personal property, acquired under "operating leases" as defined in Statement of Financial Accounting Standards No. 13 (FAS-13), Accounting for Leases. (See [31.205-11](#) for Capital Leases.)

(b) The following costs are allowable:

(1) Rental costs under operating leases, to the extent that the rates are reasonable at the time of the lease decision, after consideration of --

- (i) Rental costs of comparable property, if any;
- (ii) Market conditions in the area;
- (iii) The type, life expectancy, condition, and value of the property leased;
- (iv) Alternatives available; and
- (v) Other provisions of the agreement.

(2) Rental costs under a sale and leaseback arrangement only up to the amount the contractor would be allowed if the contractor retained title, computed based on the net book value of the asset on the date the contractor becomes a lessee of the property adjusted for any gain or loss recognized in accordance with [31.205-16\(b\)](#).

(3) Charges in the nature of rent for property between any divisions, subsidiaries, or organizations under common control, to the extent that they do not exceed the normal costs of ownership, such as depreciation, taxes, insurance, facilities capital cost of money, and maintenance (excluding interest or other unallowable costs pursuant to Part 31), provided that no part of such costs shall duplicate any other allowed cost. Rental cost of personal property leased from any division, subsidiary, or affiliate of the contractor under common control, that has an established practice of leasing the same or similar property to unaffiliated lessees shall be allowed in accordance with subparagraph (b)(1) of this section.

(c) The allowability of rental costs under unexpired leases in connection with terminations is treated in [31.205-42\(e\)](#).

FAR 31.205-42 Termination Costs.

Contract terminations generally give rise to the incurrence of costs or the need for special treatment of costs that would not have arisen had the contract not been terminated. The following cost principles peculiar to termination situations are to be used in conjunction with the other cost principles in [Subpart 31.2](#):

(a) *Common items.* The costs of items reasonably usable on the contractor's other work shall not be allowable unless the contractor submits evidence that the items could not be retained at cost without sustaining a loss. The contracting officer should consider the contractor's plans and orders for current and planned production when determining if items can reasonably be used on other work of the contractor. Contemporaneous purchases of common items by the contractor shall be regarded as evidence that such items are reasonably usable on the

contractor's other work. Any acceptance of common items as allocable to the terminated portion of the contract should be limited to the extent that the quantities of such items on hand, in transit, and on order are in excess of the reasonable quantitative requirements of other work.

(b) *Costs continuing after termination* Despite all reasonable efforts by the contractor, costs which cannot be discontinued immediately after the effective date of termination are generally allowable. However, any costs continuing after the effective date of the termination due to the negligent or willful failure of the contractor to discontinue the costs shall be unallowable.

(c) *Initial costs.* Initial costs, including starting load and preparatory costs, are allowable as follows:

(1) Starting load costs not fully absorbed because of termination are nonrecurring labor, material, and related overhead costs incurred in the early part of production and result from factors such as --

(i) Excessive spoilage due to inexperienced labor;

(ii) Idle time and subnormal production due to testing and changing production methods;

(iii) Training; and

(iv) Lack of familiarity or experience with the product, materials, or manufacturing processes.

(2) Preparatory costs incurred in preparing to perform the terminated contract include such costs as those incurred for initial plant rearrangement and alterations, management and personnel organization, and production planning. They do not include special machinery and equipment and starting load costs.

(3) When initial costs are included in the settlement proposal as a direct charge, such costs shall not also be included in overhead. Initial costs attributable to only one contract shall not be allocated to other contracts.

(4) If initial costs are claimed and have not been segregated on the contractor's books, they shall be segregated for settlement purposes from cost reports and schedules reflecting that high unit cost incurred during the early stages of the contract.

(5) If the settlement proposal is on the inventory basis, initial costs should normally be allocated on the basis of total end items called for by the contract immediately before termination; however, if the contract includes end items of a diverse nature, some other equitable basis may be used, such as machine or labor hours.

(d) *Loss of useful value.* Loss of useful value of special tooling, and special machinery and equipment is generally allowable, provided --

(1) The special tooling, or special machinery and equipment is not reasonably capable of use in the other work of the contractor;

(2) The Government's interest is protected by transfer of title or by other means deemed appropriate by the contracting officer; and

(3) The loss of useful value for any one terminated contract is limited to that portion of the acquisition cost which bears the same ratio to the total acquisition cost as the terminated portion of the contract bears to the entire terminated contract and other Government contracts for which the special tooling, or special machinery and equipment was acquired.

(e) *Rental under unexpired leases.* Rental costs under unexpired leases, less the residual value of such leases, are generally allowable when shown to have been reasonably necessary for the performance of the terminated contract, if --

(1) The amount of rental claimed does not exceed the reasonable use value of the property leased for the period of the contract and such further period as may be reasonable; and

(2) The contractor makes all reasonable efforts to terminate, assign, settle, or otherwise reduce the cost of such lease.

(f) *Alterations of leased property.* The cost of alterations and reasonable restorations required by the lease may be allowed when the alterations were necessary for performing the contract.

(g) *Settlement expenses*

(1) Settlement expenses, including the following, are generally allowable:

(i) Accounting, legal, clerical, and similar costs reasonably necessary for --

(A) The preparation and presentation, including supporting data, of settlement claims to the contracting officer; and

(B) The termination and settlement of subcontracts.

(ii) Reasonable costs for the storage, transportation, protection, and disposition of property acquired or produced for the contract.

(iii) Indirect costs related to salary and wages incurred as settlement expenses in (i) and (ii); normally, such indirect costs shall be limited to payroll taxes, fringe benefits, occupancy costs, and immediate supervision costs.

(2) If settlement expenses are significant, a cost account or work order shall be established to separately identify and accumulate them.

(h) *Subcontractor claims.* Subcontractor claims, including the allocable portion of the claims common to the contract and to other work of the contractor, are generally allowable. An appropriate share of the contractor's indirect expense may be allocated to the amount of settlements with subcontractors; provided, that the amount allocated is reasonably proportionate to the relative benefits received and is otherwise consistent with [31.201-4](#) and [31.203\(d\)](#). The indirect expense so allocated shall exclude the same and similar costs claimed directly or indirectly as settlement expenses.

FAR 31.205-43 Trade, Business, Technical and Professional Activity Costs.

The following types of costs are allowable:

(a) Memberships in trade, business, technical, and professional organizations.

(b) Subscriptions to trade, business, professional, or other technical periodicals.

(c) When the principal purpose of a meeting, convention, conference, symposium, or seminar is the dissemination of trade, business, technical or professional information or the stimulation of production or improved productivity --

(1) Costs of organizing, setting up, and sponsoring the meetings, conventions, symposia, etc., including rental of meeting facilities, transportation, subsistence, and incidental costs;

(2) Costs of attendance by contractor employees, including travel costs (see 31.205-46); and

(3) Costs of attendance by individuals who are not employees of the contractor, *provided* --

(i) Such costs are not also reimbursed to the individual by the employing company or organization, and

(ii) The individuals attendance is essential to achieve the purpose of the conference, meeting, convention, symposium, etc.

FAR 31.205-46 Travel Costs.

a) *Costs for transportation, lodging, meals, and incidental expenses.*

(1) Costs incurred by contractor personnel on official company business are allowable, subject to the limitations contained in this subsection. Costs for transportation may be based on mileage rates, actual costs incurred, or on a combination thereof, provided the method used results in a reasonable charge. Costs for lodging, meals, and incidental expenses may be based on per diem, actual expenses, or a combination thereof, provided the method used results in a reasonable charge.

(2) Except as provided in subparagraph (a)(3) of this subsection, costs incurred for lodging, meals, and incidental expenses (as defined in the regulations cited in (a)(2)(i) through (iii) of this subparagraph) shall be considered to be reasonable and allowable only to the extent that they do not exceed on a daily basis the maximum per diem rates in effect at the time of travel as set forth in the --

(i) Federal Travel Regulations, prescribed by the General Services Administration, for travel in the contiguous United States, available on a subscription basis from the --
Superintendent of Documents
U.S. Government Printing Office
Washington, DC 20402
Stock No. 922-002-00000-2;

(ii) Joint Travel Regulation, Volume 2, DoD Civilian Personnel, Appendix A, prescribed by the Department of Defense, for travel in Alaska, Hawaii, and outlying areas of the United States, available on a subscription basis from the --
Superintendent of Documents
U.S. Government Printing Office
Washington, DC 20402
Stock No. 908-010-00000-1; or

(iii) Standardized Regulations (Government Civilians, Foreign Areas), Section 925, "Maximum Travel Per Diem Allowances for Foreign Areas," prescribed by the Department of State, for travel in areas not covered in (a)(2)(i) and (ii) of this subparagraph, available on a subscription basis from the --
Superintendent of Documents
U.S. Government Printing Office
Washington, DC 20402
Stock No. 744-008-00000-0.

(3) In special or unusual situations, actual costs in excess of the above-referenced maximum per diem rates are allowable provided that such amounts do not exceed the higher amounts authorized for Federal civilian employees as permitted in the regulations referenced in (a)(2)(i), (ii), or (iii) of this subsection. For such higher amounts to be allowable, all of the following conditions must be met:

(i) One of the conditions warranting approval of the actual expense method, as set forth in the regulations referenced in paragraphs (a)(2)(i), (ii), or (iii) of this subsection, must exist.

(ii) A written justification for use of the higher amounts must be approved by an officer of the contractor's organization or designee to ensure that the authority is properly administered and controlled to prevent abuse.

(iii) If it becomes necessary to exercise the authority to use the higher actual expense method repetitively or on a continuing basis in a particular area, the contractor must obtain advance approval from the contracting officer.

(iv) Documentation to support actual costs incurred shall be in accordance with the contractor's established practices, subject to paragraph (a)(7) of this subsection, and provided that a receipt is

required for each expenditure of \$75.00 or more. The approved justification required by paragraph (a)(3)(ii) and, if applicable, paragraph (a)(3)(iii) of this subsection must be retained.

(4) Paragraphs (a)(2) and (a)(3) of this subsection do not incorporate the regulations cited in subdivisions (a)(2)(i), (ii), and (iii) of this subsection in their entirety. Only the maximum per diem rates, the definitions of lodging, meals, and incidental expenses, and the regulatory coverage dealing with special or unusual situations are incorporated herein.

(5) An advance agreement (see [31.109](#)) with respect to compliance with subparagraphs (a)(2) and (a)(3) of this subsection may be useful and desirable.

(6) The maximum per diem rates referenced in subparagraph (a)(2) of this subsection generally would not constitute a reasonable daily charge --

(i) When no lodging costs are incurred; and/or

(ii) On partial travel days (e.g., day of departure and return). Appropriate downward adjustments from the maximum per diem rates would normally be required under these circumstances. While these adjustments need not be calculated in accordance with the Federal Travel Regulation or Joint Travel Regulations, they must result in a reasonable charge.

(7) Costs shall be allowable only if the following information is documented --

(i) Date and place (city, town, or other similar designation) of the expenses;

(ii) Purpose of the trip; and

(iii) Name of person on trip and that person's title or relationship to the contractor.

(b) Airfare costs in excess of the lowest customary standard, coach, or equivalent airfare offered during normal business hours are unallowable except when such accommodations require circuitous routing, require travel during unreasonable hours, excessively prolong travel, result in increased cost that would offset transportation savings, are not reasonably adequate for the physical or medical needs of the traveler, or are not reasonably available to meet mission requirements. However, in order for airfare costs in excess of the above standard airfare to be allowable, the applicable condition(s) set forth above must be documented and justified.

(c)

(1) "Cost of travel by contractor-owned, -leased, or -chartered aircraft," as used in this paragraph, includes the cost of lease, charter, operation (including personnel), maintenance, depreciation, insurance, and other related costs.

(2) The costs of travel by contractor-owned, -leased, or -chartered aircraft are limited to the standard airfare described in paragraph (b) of this subsection for the flight destination unless travel by such aircraft is specifically required by contract specification, term, or condition, or a higher amount is approved by the contracting officer. A higher amount may be agreed to when one or more of the circumstances for justifying higher than standard airfare listed in paragraph (b) of this subsection are applicable, or when an advance agreement under subparagraph (c)(3) of this subsection has been executed. In all cases, travel by contractor-owned, -leased, or -chartered aircraft must be fully documented and justified. For each contractor-owned, -leased, or -chartered aircraft used for any business purpose which is charged or allocated, directly or indirectly, to a Government contract, the contractor must maintain and make available manifest/logs for all flights on such company aircraft. As a minimum, the manifest/log shall indicate --

(i) Date, time, and points of departure;

(ii) Destination, date, and time of arrival;

(iii) Name of each passenger and relationship to the contractor;

(iv) Authorization for trip; and

(v) Purpose of trip.

(3) Where an advance agreement is proposed (see [31.109](#)), consideration may be given to the following:

(i) Whether scheduled commercial airlines or other suitable, less costly, travel facilities are available at reasonable times, with reasonable frequency, and serve the required destinations conveniently.

(ii) Whether increased flexibility in scheduling results in time savings and more effective use of personnel that would outweigh additional travel costs.

(d) Costs of contractor-owned or -leased automobiles, as used in this paragraph, include the costs of lease, operation (including personnel), maintenance, depreciation, insurance, etc. These costs are allowable, if reasonable, to the extent that the automobiles are used for company business. That portion of the cost of company-furnished automobiles that relates to personal use by employees (including transportation to and from work) is compensation for personal services and is unallowable as stated in [31.205-6\(m\)\(2\)](#).

FAR 31.205-51 Costs of Alcoholic Beverages.

Costs of alcoholic beverages are unallowable.

FAR 32.705-2 Clauses for limitation of cost or funds.

(a) The contracting officer shall insert the clause at [52.232-20](#), Limitation of Cost, in solicitations and contracts if a fully funded cost-reimbursement contract is contemplated, whether or not the contract provides for payment of a fee.

(b) The contracting officer shall insert the clause at [52.232-22](#), Limitation of Funds, in solicitations and contracts if an incrementally funded cost-reimbursement contract is contemplated.

FAR 52.232-18 Availability of Funds.

As prescribed in [32.705-1\(a\)](#), insert the following clause:

AVAILABILITY OF FUNDS (APR 1984)

Funds are not presently available for this contract. The Government's obligation under this contract is contingent upon the availability of appropriated funds from which payment for contract purposes can be made. No legal liability on the part of the Government for any payment may arise until funds are made available to the Contracting Officer for this contract and until the Contractor receives notice of such availability, to be confirmed in writing by the Contracting Officer.

FAR 52.247-63 Preference for U.S.-Flag Air Carriers.

As prescribed in [47.405](#), insert the following clause:

PREFERENCE FOR U.S.-FLAG AIR CARRIERS (JUNE 2003)

(a) *Definitions.* As used in this clause—

“International air transportation” means transportation by air between a place in the United States and a place outside the United States or between two places both of which are outside the United States.

“United States” means the 50 States, the District of Columbia, and outlying areas.

“U.S.-flag air carrier” means an air carrier holding a certificate under [49 U.S.C. Chapter 411](#).

(b) Section 5 of the International Air Transportation Fair Competitive Practices Act of 1974 ([49 U.S.C. 40118](#)) (Fly America Act) requires that all Federal agencies and Government contractors and subcontractors use U.S.-flag air carriers for U.S. Government-financed international air transportation of personnel (and their personal effects) or property, to the extent that service by those carriers is available. It requires the Comptroller General of the United States, in the absence of satisfactory proof of the necessity for foreign-flag air transportation, to disallow expenditures from funds, appropriated or otherwise established for the account of the United States, for

international air transportation secured aboard a foreign-flag air carrier if a U.S.-flag air carrier is available to provide such services.

(c) If available, the Contractor, in performing work under this contract, shall use U.S.-flag carriers for international air transportation of personnel (and their personal effects) or property.

(d) In the event that the Contractor selects a carrier other than a U.S.-flag air carrier for international air transportation, the Contractor shall include a statement on vouchers involving such transportation essentially as follows:

STATEMENT OF UNAVAILABILITY OF U.S.-FLAG AIR CARRIERS

International air transportation of persons (and their personal effects) or property by U.S.-flag air carrier was not available or it was necessary to use foreign-flag air carrier service for the following reasons (see section [47.403](#) of the Federal Acquisition Regulation): [*State reasons*]:

(End of statement)

(e) The Contractor shall include the substance of this clause, including this paragraph (e), in each subcontract or purchase under this contract that may involve international air transportation.

(End of clause)