



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PAC 730.3.B.01/2006-02

December 19, 2005
05-PAC-074(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Revision to FAR 31.205-35, Relocation Costs

SUMMARY

FAR 31.205-35, Relocation costs, was revised to add three additional types of relocation costs that may be reimbursed on a lump-sum basis in lieu of actual costs. The three additional types of relocation costs are: 1) costs of finding a new home; 2) costs of traveling to the new location; and 3) costs of temporary lodging. The revised cost principle is applicable to contracts awarded on or after October 31, 2005.

Auditors should continue to follow the guidance in CAM 7-1004 when evaluating relocation costs for allowability and ensure that contractors maintain adequate data supporting the estimated lump-sum reimbursement for the three types of relocation costs. Claimed lump-sum relocation costs without adequate data supporting the estimated lump-sum reimbursement should be questioned by the auditor.

GUIDANCE

The revised rule extends reimbursement on a lump sum basis in lieu of actual costs to three additional types of relocation costs. They are: 1) costs of finding a new home, 2) costs of traveling to the new location, and 3) costs of temporary lodging. Costs of traveling to the new location do not include costs of transportation of household goods. Prior to the revision, lump-sum reimbursements were limited to miscellaneous type costs discussed in FAR 31.205-35(a)(5). The current ceiling for lump-sum reimbursements for miscellaneous costs is \$5,000.

New language added at FAR 31.205-35(b)(6)(i) states:

Reimbursement on a lump-sum basis may be allowed for any of the following relocation costs when adequately supported by data on the individual elements (e.g., transportation, lodging, and meals) comprising the build-up of the lump-sum amount to be paid based on the circumstances of the particular employee's relocation (Emphasis added.)

The new provision does not impose a ceiling amount for the additional three types of relocation costs reimbursed on a lump-sum basis. However, a lump-sum reimbursement is required to be

SUBJECT: Audit Guidance on Revision to FAR 31.205-35, Relocation Costs

adequately supported to be allowable. Any portion of the lump-sum payment that is not adequately supported should be questioned. Adequate support should include detailed calculations of the individual cost elements (e.g., airfare, car rental, lodging, and meals) that reflect specific factors, such as the number of travelers involved, travel destination, and the estimated number of travel days required based on the particular employee's circumstances. For example, the estimated number of days required for house hunting trips may vary depending on whether the employee is single or married with dependent children, buying a home or renting an apartment, and the availability of housing at the new location. Under the lump sum payment approach for these relocation costs, the contractor is not required to maintain records of actual costs incurred by its employees.

In assessing the allowability of the estimated individual elements (e.g., transportation, lodging, and meals) comprising the build-up of the lump-sum amount to be reimbursed, the limitations in FAR 31.205-46, Travel costs, must be considered. For example, FAR 31.205-46(a)(2) limits allowable per diem costs on a daily basis to the "maximum per diem" rates in effect at the time of travel, as set forth in the Government travel regulations. Further, FAR 31.205-46(a)(6) provides for downward adjustments to the maximum per diem rates in certain circumstances, such as when the employee stays in a hotel or temporary lodging with his/her spouse or family where full lodging rates for each person is not required. In addition, FAR 31.205-46(b) generally limits the allowable airfare to the lowest customary standard or coach airfare. As such, auditors should consider these limitations when they are reviewing the contractor's basis for the estimated lump sum amount.

Contractors who adopt a lump-sum reimbursement of these relocation costs should establish policies and procedures that identify the group/class of employees eligible for lump-sum reimbursements and provide guidelines or criteria for determining the estimated lump-sum amount. Audit evaluations should include a review of the contractor's policies and procedures and the documentation that supports the calculation of the estimated lump-sum amount for the particular employee. The auditor should also ensure that the contractor's practice is consistently followed and that lump-sum payments reflect the individual circumstances of the relocated employees.

In addition, the new lump-sum reimbursement provision envisions the lump-sum amount to be established before the employee actually incurs the costs and prohibits subsequent adjustments to reflect actual costs incurred by the employee. Accordingly, any additional costs resulting from such adjustments are unallowable on Government contracts.

The specific changes to FAR 31.205-35, Relocation costs, are provided in the Enclosure in the line-in line-out format. CAM 7-1004 will be revised to reflect the changes to the cost principle.

SUBJECT: Audit Guidance on Revision to FAR 31.205-35, Relocation Costs

CONCLUDING REMARKS

Field audit office personnel should direct questions regarding this memorandum to their regional offices. Regional offices should direct their questions to Accounting and Cost Principles Division, at (703) 767-3250.

/Signed/

Earl J. Newman
Assistant Director
Policy and Plans

Enclosure:

Revised Rule – Line In / Line Out

DISTRIBUTION: C

Lump-Sum Relocation - FAR 31.205-35
Revised Rule Line-In/Line-Out

*The baseline is the FAR language from FAC 2001-08, dated July 29, 2002. Final changes published in Federal Register at 70 FR 57467, dated September 30, 2005, are noted in **[bold]** for additions to the text and strikethrough for deletions.*

31.205-35 Relocation costs.

(a) Relocation costs are costs incident to the permanent change of assigned work location (for a period of 12 months or more) of an existing employee or upon recruitment of a new employee. The following types of relocation costs are allowable as noted, subject to the limitations in paragraphs (b) and (f) of this subsection:

(1) Costs of travel of the employee and members of the employee's immediate family (see 31.205-46) and transportation of the household and personal effects to the new location.

(2) Costs of finding a new home, such as advance trips by the employee or the spouse, or both, to locate living quarters, and temporary lodging during the transition period for the employee and members of the employee's immediate family.

(3) Closing costs incident to the disposition of the actual residence owned by the employee when notified of the transfer (*e.g.*, brokerage fees, legal fees, appraisal fees, points, and finance charges), except that these costs, when added to the costs described in paragraph (a)(4) of this subsection, shall not exceed 14 percent of the sales price of the property sold.

(4) Continuing costs of ownership of the vacant former actual residence being sold, such as maintenance of building and grounds (exclusive of fixing up expenses), utilities, taxes, property insurance, and mortgage interest, after the settlement date or lease date of a new permanent residence, except that these costs, when added to the costs described in paragraph (a)(3) of this subsection, shall not exceed 14 percent of the sales price of the property sold.

(5) Other necessary and reasonable expenses normally incident to relocation, such as disconnecting and connecting household appliances; automobile registration; driver's license and use taxes; cutting and fitting rugs, draperies, and curtains; forfeited utility fees and deposits; and purchase of insurance against damage to or loss of personal property while in transit.

(6) Costs incident to acquiring a home in the new work location, except that—

(i) These costs are not allowable for existing employees or newly recruited employees who were not homeowners before the relocation; and

(ii) The total costs shall not exceed 5 percent of the purchase price of the new home.

(7) Mortgage interest differential payments, except that these costs are not allowable for existing or newly recruited employees who, before the relocation, were not homeowners and the total payments are limited to an amount determined as follows:

(i) The difference between the mortgage interest rates of the old and new residences times the current balance of the old mortgage times 3 years.

(ii) When mortgage differential payments are made on a lump-sum basis and the employee leaves or is transferred again in less than 3 years, the amount initially recognized shall be proportionately adjusted to reflect payments only for the actual time of the relocation.

Lump-Sum Relocation - FAR 31.205-35
Revised Rule Line-In/Line-Out

(8) Rental differential payments covering situations where relocated employees retain ownership of a vacated home in the old location and rent at the new location. The rented quarters at the new location must be comparable to those vacated, and the allowable differential payments may not exceed the actual rental costs for the new home, less the fair market rent for the vacated home times 3 years.

(9) Costs of canceling an unexpired lease.

(10) Payments for increased employee income or Federal Insurance Contributions Act (26 U.S.C. Chapter 21) taxes incident to allowable reimbursed relocation costs.

(11) Payments for spouse employment assistance.

(b) The costs described in paragraph (a) of this subsection must also meet the following criteria to be considered allowable:

(1) The move must be for the benefit of the employer.

(2) Reimbursement must be in accordance with an established policy or practice that is consistently followed by the employer and is designed to motivate employees to relocate promptly and economically.

(3) The costs must not be otherwise unallowable under Subpart 31.2.

(4) Amounts to be reimbursed shall not exceed the employee's actual expenses, except that **[as provided]** for ~~miscellaneous costs of the type discussed in paragraph (a)(5)~~ **(b)(5) and (b)(6)** of this subsection, a flat amount, not to exceed \$5,000, may be allowed in lieu of actual costs.

(5) For miscellaneous costs of the type discussed in paragraph (a)(5) of this subsection, a lump-sum amount, not to exceed \$5,000, may be allowed in lieu of actual costs.

(6)(i) Reimbursement on a lump-sum basis may be allowed for any of the following relocation costs when adequately supported by data on the individual elements (e.g., transportation, lodging, and meals) comprising the build-up of the lump-sum amount to be paid based on the circumstances of the particular employee's relocation:

(A) Costs of finding a new home, as discussed in paragraph (a)(2) of this subsection.

(B) Costs of travel to the new location, as discussed in paragraph (a)(1) of this subsection (but not costs for the transportation of household goods).

(C) Costs of temporary lodging, as discussed in paragraph (a)(2) of this subsection.

(ii) When reimbursement on a lump-sum basis is used, any adjustments to reflect actual costs are unallowable.

* * * * *

(c) The following types of costs are unallowable:

(1) Loss on the sale of a home.

(2) Costs incident to acquiring a home in the new location as follows:

(i) Real estate brokers' fees and commissions.

(ii) Costs of litigation.

(iii) Real and personal property insurance against damage or loss of property.

Lump-Sum Relocation - FAR 31.205-35
Revised Rule Line-In/Line-Out

(iv) Mortgage life insurance.

(v) Owner's title policy insurance when such insurance was not previously carried by the employee on the old residence. (However, the cost of a mortgage title policy is allowable.)

(vi) Property taxes and operating or maintenance costs.

(3) Continuing mortgage principal payments on a residence being sold.

(4) Costs incident to furnishing equity or nonequity loans to employees or making arrangements with lenders for employees to obtain lower-than-market rate mortgage loans.

(d) If relocation costs for an employee have been allowed either as an allocable indirect or direct cost, and the employee resigns within 12 months for reasons within the employee's control, the contractor shall refund or credit the relocation costs to the Government.

(e) Subject to the requirements of paragraphs (a) through (d) of this section, the costs of family movements and of personnel movements of a special or mass nature are allowable. The cost, however, should be assigned on the basis of work (contracts) or time period benefited.

(f) Relocation costs (both outgoing and return) of employees who are hired for performance on specific contracts or long-term field projects are allowable if—

(1) The term of employment is 12 months or more;

(2) The employment agreement specifically limits the duration of employment to the time spent on the contract or field project for which the employee is hired;

(3) The employment agreement provides for return relocation to the employee's permanent and principal home immediately prior to the outgoing relocation, or other location of equal or lesser cost; and

(4) The relocation costs are determined under the rules of paragraphs (a) through (d) of this section. However, the costs to return employees, who are released from employment upon completion of field assignments pursuant to their employment agreements, are not subject to the refund or credit requirement of paragraph (d).