

## SELECTED AREAS OF COST

### Chapter 71 – Training and Education Costs

#### Authoritative Sources

[FAR 31.205-44](#) Training and Education Costs

This chapter addresses the following topics:

71-1 Introduction

71-2 Allowability of Selling Cost

#### 71-1 Introduction

The allowability of a contractor's training and education costs should be determined based on the provisions of FAR 31.205-44 and the reasonableness provisions of FAR 31.201-3. The six types of expressly unallowable costs are as follows:

- Overtime compensation paid to employees while attending training.
- Compensation for employees attending under-graduate level courses except where circumstances do not permit the operation of classes or attendance at classes after regular working hours. Where the incidence of these costs is high, the auditor should assure himself or herself that circumstances do not in fact permit holding classes or attending classes after regular working hours.
- Costs of full-time graduate level education in excess of 2 years or the length of the degree program, whichever is less. Unallowable costs include tuition, fees, training materials, textbooks, subsistence and salary.
- Grants, donations, scholarships, and fellowships are all considered contributions and are, therefore, unallowable.
- Training or educational costs for other than bona fide employees except in cases where the employee is working in a foreign country and suitable public education is not available. In these cases, the costs for education of the employee's dependents are limited to primary and secondary level studies and may be included in overseas differential pay.
- Contributions to college savings plans for employee dependents.

#### 71-2 Audit Considerations

Training programs vary from contractor to contractor, depending on the relative need for training, training objectives, the size, stability and composition of the work force and other such factors. Where training is a continuous rather than an occasional activity,

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involves a substantial number of employees, and results in allocation of significant amounts of costs to Government work, the contractor should be required to maintain a well-defined training program based on formal policies and procedures. The policies and procedures should be compatible with the accounting system used to record and distribute costs to cost objectives.

Initial audit effort should be directed towards evaluating the contractor's training policies and practices, as well as the related cost accounting procedures. A training manual may be maintained by contractors that could prove useful to the auditor in reviewing the company's criteria for determining employee eligibility and need for specific training courses or activities.

The contractor should monitor the program to assure regular attendance and adequate course performance by the personnel enrolled. The program should include procedures for evaluating the suitability and sufficiency of each course of study or activity (e.g., relates to the field in which the employee is working or may reasonably be expected to work). Systematic post-training observation by the contractor of trainees' progress on the job would assist in achieving this objective.

Auditors should insure that contractors who provide full reimbursement of tuition have a policy that prevents recipients from receiving reimbursement from both the contractor and other outside sources. For example, even though college tuition reimbursement for veterans would be allowable under FAR 31.205-44, it is not reasonable for a contractor to provide duplicative reimbursements to veteran employees who are also eligible for reimbursement through the Veterans Administration. Therefore, duplicative employee training and education reimbursements should be questioned based on reasonableness (see FAR 31.201-3).

Auditors must ensure that training and education costs incurred by contractors, that are subsequently reimbursed under various initiatives provided by the Workforce Investment Act, or any other similar programs, be credited to government contracts in accordance with FAR 31.201-5 (see Chapter 75, Workforce Investment Act).

The auditor should determine that the training and education function does not discriminate against Government business or result in undue charges to Government contracts. This would occur if, for example, a company regularly hired new employees in its Government-oriented divisions, charged their training costs thereto, and then transferred the trained employees to their commercial-oriented divisions. Training and educational costs should properly be charged or allocated on a benefit basis. Such benefit would ordinarily be considered to accrue to the organizational segment(s) or profit center(s) of the company in which the personnel are expected to function (for a reasonable period of time) as a consequence of the training or education provided to them.