

SELECTED AREAS OF COST

Chapter 48 - Military Operations -- War Hazard, Reserve Supplements, and Celebrations

Authoritative Sources

[FAR 31.205-1](#) Public Relations and Advertising Costs

[FAR 31.205-8](#) Contributions or Donations

This chapter addresses the following topics:

- 48-1 War Hazard Pay
- 48-2 Supplemental Reservist Payments
- 48-3 Homecoming Celebration Expenses

48-1 War Hazard Pay

Contractors will sometimes offer hazardous duty pay as an incentive to employees performing work under unusually dangerous situations. These incentives vary among contractors and may reflect differences in individual circumstances. Such incentives are to be evaluated for reasonableness on a case-by-case basis. Each contractor should support the reasonableness of the incentives by presenting evidence that may be relevant to the particular circumstances. War hazard differentials may well be justified in order to ensure that critical functions are maintained in support of our troops.

The amount of war hazard pay necessary in a given situation will depend on many factors, such as:

- (1) Country and city where assigned,
- (2) Distance of work site from actual battlelines and surrounding areas of imminent danger,
- (3) War hazard differentials being offered by other defense contractors in the same location,
- (4) Employee response to any lower war hazard differential pay offers made by the contractor,
- (5) Availability of alternate workers at appropriate skill level, and

- (6) Other compensation offered, such as bonuses and insurance coverage.

Auditors should review the reasonableness of the process by which the war hazard differentials are set without any preconceived idea of what percentage or dollar amount is to be accepted as reasonable. Whatever policy the contractor sets should be consistent to ensure that the contractor is not paying the war hazard differential only where it can be reimbursed on Government contracts (e.g., flexibly priced contracts). Contractors should also be encouraged to set forth their policy in writing to the cognizant ACO and enter into an advance agreement to avoid misunderstandings.

48-2 Supplemental Reservist Payments

Many companies choose to continue certain fringe benefits, such as health insurance, for employees who have been called to military duty. In addition, many companies pay these individuals the difference between their civilian and military salaries in an effort to help mitigate the hardships that those called to active military duty will experience. In accordance with an October 5, 2001 memorandum issued by the Under Secretary of Defense for Acquisition, Technology and Logistics, these types of supplemental benefits for extended military leave are to be considered allowable costs pursuant to FAR 31.205-6, Compensation for personal services.

Allowable amounts are limited to the lesser of:

- (1) the contractor's extended military leave benefits plus active duty pay, or
- (2) the total compensation of an employee at the time of entry into active military duty.

For purposes of computing this limitation, active duty pay includes basic pay, all specialty pay, and all allowances, except for subsistence, travel, and uniform allowances.

48-3 Homecoming Celebration Expenses

In accordance with a June 3, 1991 memorandum issued by the Director, Defense Procurement, Acquisition Policy, and Strategic Sourcing (DPAPSS), Operation Desert Storm homecoming activities are considered to be a national celebration. If costs are incurred for participating in honoring the Desert Storm troops and celebrating the operation's success, this section applies.

As a general rule, the costs of participation are allowable because participation costs are considered as being incurred in different circumstances than public relations or advertising costs. However, costs which would otherwise be specifically unallowable are still unallowable.

Allowable contractor participation costs include labor, material, and other direct costs of the celebration. Employee time to participate in the activities could include time to march in a parade or fabricate a parade float. Contractors should be allowed material and other direct costs of floats, displays, or exhibits appropriate to the celebration activity. Generally, the allowability of such costs is linked to employee morale and will normally involve celebrations in the locality of the contractor facility. While there is no specific limit on the number or location of celebration activities that would be allowable for a contractor, there should be a clear linkage to employee morale.

Employee absence from the workplace to attend the celebrations is allowable if the associated costs are reasonable. Most celebration activities were scheduled for holidays or weekends when there would be little or no contractor costs for employee attendance. When activities were scheduled for normal work time, reasonable personal absence costs are allowable.

Certain costs remain unallowable even if associated with such celebrations. Any advertisement to the public of any nature is subject to FAR 31.205-1, although the contractor is allowed to include its name and logo on a banner, sign, and/or float used in the celebration activity. Costs of souvenirs, models, imprinted clothing, buttons, and other mementos distributed during the celebration are unallowable under FAR 31.205-1(f)(6). Contributions to local governments or other third parties to pay for celebration activities are unallowable contributions under FAR 31.205-8.