

## SELECTED AREAS OF COST

### Chapter 72 – Travel Costs

#### Authoritative Sources

[FAR 31.205-46](#) Travel Costs

[FAR Subpart 47.4](#) Air Transportation by U.S.-Flag Carriers

This section covers basic guidance, including the applicable FAR provisions, in reviewing employee travel costs and travel costs related to contractor - owned, -leased, or -chartered aircraft.

This chapter addresses the following topics:

72-1 Employee Travel Costs

72-2 Travel Costs on Contractor Aircraft – Owned, Leased, or Chartered

#### 72-1 Employee Travel Costs

##### 72-1.1 General Considerations

Audits of travel costs (see FAR 31.205-46) should include appropriate examination of the contractor's travel policies and procedures as well as the selective review of individual trips made by contractor personnel. Coverage of this area should thus include a determination that the contractor's travel authorization procedures provide for documented justification and approval of the official necessity of each trip, its duration, and the number of travelers involved. The contractor's procedures should provide for advance planning of travel to assure that:

a. wherever feasible and economically practical, required visits to locations in the same geographical area are combined into a single trip,

b. maximum use is made of the lowest customary standard, coach, or equivalent airfare accommodations available during normal business hours, and

c. coordination between organizational elements is effected to minimize the number of trips to the same location. Individual trips should be reviewed to determine if

(1) the contractor is complying with its travel policies and procedures,

(2) the trip is for an allowable purpose, and

(3) the incurred travel costs are documented and allowable in accordance with FAR 31.205-46. In addition, the auditor should review the contractor's accounting procedures to determine whether or not they provide adequate controls for segregating unallowable travel costs.

### **72-1.2 Documentation Required**

FAR 31.205-46(a)(7) states that costs are allowable only if the contractor maintains specific documentation to support claimed travel costs. The documentation requirements are similar to the long-standing requirements imposed by Section 274 of the Internal Revenue Code (IRC). For claimed costs to be allowable, the following information must be documented:

- a. date and place (city, town, or other similar designation) of the expenses,
- b. purpose of the trip; and
- c. name of person on trip and that person's title or relationship to the contractor.

This information must be maintained in a book, diary, account book, or similar records. Documentation such as cancelled checks, credit card receipts, and hotel bills are to be maintained as corroboration for expenses, but without the diary or similar records, they may not be sufficient support for deductibility.

### **72-1.3 Allowability of Per Diem Costs Under FAR 31.205-46**

FAR 31.205-46(a) states that costs for lodging, meals, and incidental expenses may be based on (i) per diem, (ii) actual expenses, or (iii) a combination of a fixed amount and actual expenses. However, except for special or unusual situations, allowable costs are limited on a daily basis to the "maximum per diem" rates in effect at the time of travel set forth in the Government travel regulations as follows:

(1) Federal Travel Regulations, for travel in the conterminous 48 United States. These rates are available on the GSA web site [www.gsa.gov](http://www.gsa.gov) under Policy.

(2) Joint Travel Regulations, for travel in Alaska, Hawaii, the Commonwealth of Puerto Rico, and territories and possessions of the United States.

(3) Department of State Standardized Regulations, Section 925, Maximum Travel Per Diem Allowances for Foreign Areas, for travel to foreign countries.

The Federal Travel Regulations, Joint Travel Regulations and Department of State Standardized Regulations treat certain costs related to the maximum per diem rates differently. The maximum per diem rate consists of lodging and M&IE (meals and incidental expense) rates. The schedule below shows these costs and how each regulation treats them:

Cost Element	Federal Travel Regulations	Joint Travel Regulations	Department of State Standardized Regulations
Lodging Taxes	Separate allowable expense	Separate allowable expense	Included in lodging rate
Laundry/Dry Cleaning	Separate allowable expense	Included in M&IE rate	Included in M&IE rate

FAR 31.205-46 does not incorporate the Government travel regulations in their entirety. The requirements and provisions of the Government travel regulations are to be applied to contractors only in the following three specific areas:

(1) Definitions of lodging, meals, and incidental expenses. Incidental expenses include fees and tips to waiters and porters; transportation between places of lodging or business and places where meals are taken, if suitable meals cannot be obtained at the TDY site; and mailing costs associated with filing travel vouchers and payment of Government-sponsored charge card billings. For travel outside the Continental United States incidental expenses also include the cost of laundry and cleaning and pressing of clothes.

(2) Maximum per diem rates. Maximum per diem rates are a combination of lodging plus meals and incidental expenses. The Government travel regulations provide for two ceiling amounts: one for lodging and one for meals and incidental expenses. However, contractors are subject to only one ceiling, a total of lodging plus meals and incidental expenses.

(3) Special or unusual situations. The applicable travel regulations provide for special or unusual situations where reimbursement of a higher amount (e.g., up to 300 percent of the applicable maximum per diem rate for domestic travel) is authorized based on actual expenses incurred. Examples of such situations include when: (a) the employee must stay at a prearranged hotel where he or she attends a conference or training session; and (b) the travel is to an area where subsistence costs have escalated for short periods of time during special functions or events such as sports events, world fairs, or conventions. For costs in excess of the maximum per diem rates to be allowable, FAR 31.205-46(a)(3) requires a written justification for use of the higher amounts, signed by an officer (or designee) of the contractor. Additionally, if the higher rate is used repetitively, the contractor must obtain advance approval from the contracting officer.

The contractor may adopt policies for reimbursing employees for travel expenses based on actual expenses, fixed amount, or a combination of actual expenses (e.g., for lodging) and a fixed amount (e.g., for meals and incidental expenses). In any event, allowable costs to Government contracts may not exceed the maximum per diem rates specified in the Government travel regulations. If a contractor's policy is to reimburse its employees a fixed amount (per diem) for subsistence within the prescribed maximum daily per diem rates, there is a presumption that the costs are reasonable and allowable

and detailed receipts or other documentation are not required to support claims by employees. On the other hand, if a contractor's policy is to reimburse its employees actual expenses incurred, all unallowable costs (such as, alcoholic beverages and entertainment) must be separately identified and excluded from billings, claims, and proposals to the Government in accordance with FAR 31.201-6 and CAS 405.

The maximum Federal per diem rates reflect allowance for lodging, meals, and incidentals for a 24-hour period. Use of those rates when travel does not require a full day or does not require lodging expense would be inconsistent with the rate structure. While the cost principle does not prescribe a specific reduction formula for contractor use to account for partial days, it does state that use of the maximum rates in such situations would generally be unreasonable. Contractors must provide for a reasonable reduction from the maximum rates when lodging, meals, or incidentals are not required.

#### **72-1.4 Use of Statistical Sampling to Segregate Unallowable Costs**

When employee reimbursement for travel expense is based on actual costs incurred, FAR 31.201-6 and CAS 405 require contractors to demonstrate that all unallowable costs are separately accounted for and excluded from all billings, claims, and proposals to the Government. The use of a statistical sampling analysis to segregate unallowable costs would not generally meet the requirements of the CAS and the FAR. CAS 405.50(a) and (b) and FAR 31.201-6(c) require contractors to establish and maintain sufficient detail and depth of records of identified unallowable costs so as to permit audit verification of the accounting treatment for the unallowable costs. The use of a projection or estimate of unallowable costs in lieu of specific identification of such costs, even though based on a valid statistical sampling analysis, normally would not be compliant with the requirements of CAS 405.50(a) and (b) and FAR 31.201-6(c).

In circumstances where costs involved are not material, CAS 405.50(c) provides that the Government and the contractor may reach an agreement on an alternate method in lieu of specifically identifying unallowable costs. In evaluating the contractor's submission for the use of an alternate method of identifying unallowable costs, consider such factors as materiality of unallowable portions of per diem costs and additional administrative costs required to specifically identify such unallowable cost. Consider, for example, a situation such as a corporate home office of a contractor whose Government work represents only a minimal portion of its total business. The requirement to specifically identify and segregate all unallowable per diem costs could cost significantly more than the cost of the unallowable items. If the contracting officer agrees that an alternate procedure would be advantageous to the Government, the contractor may use statistical sampling or other appropriate methods to estimate the unallowable costs. If a circumstance warrants the use of statistical sampling analysis to estimate the unallowable travel costs, auditors must ensure that proper sampling techniques are used.

### **72-1.5 Allowability of Airfare Costs**

Allowable airfare costs are limited to the lowest customary standard, coach, or equivalent airfare offered during normal business hours, except for special circumstances set forth in FAR 31.205-46(b). Because airlines use many different fare codes to indicate the class of service, determining the lowest fare class regularly offered during normal business hours may be difficult. However, an explanation of the fare codes may generally be obtained from the contractor's travel agency and/or the applicable airline.

A "business class" accommodation that is offered at a price slightly lower than the first-class fare does not meet the FAR criteria for reasonableness and allowability. Conversely, use of special discount, excursion, or night rates, as a matter of common practice, should not be required when use of such fares is impractical for business travel purposes, results in circuitous routing, or causes travel accommodations not reasonably adequate for the physical needs of the traveler.

Whenever the contractor is able to obtain special fares (Ultra Savers, Ultimate Super Savers, etc.) in lieu of full economy fares, the resulting cost savings should be reflected in any billing, claim, or proposal submitted by the contractor. Travel agencies often prepare and provide to their customers airline cost savings reports designed to attract and retain customers. In connection with forward pricing, the auditor should review any recent savings reports to make sure that the proposed airfare costs reflect appropriate savings. Alternatively, at contractor locations where travel costs are significant, the auditor should recommend that the contractor develop a decrement factor to be applied when basic cost estimates are based on full economy fares, rather than achievable, lower special fares.

Increased competition among airlines has resulted in certain airline companies offering various promotional benefits, including cash, merchandise, gifts, prizes, bonus flights, reduced-fare coupons, upgrade of service, membership in clubs, check-cashing privileges, and free vacations. Contractors are not required to collect airline promotional benefits from their employees. It is up to each contractor to establish its own policy addressing the treatment of these promotional benefits. However, if a contractor has a policy that results in its employees turning in the frequent flyer bonus credits for company use, then the auditor should ensure that the Government receives its applicable share of any credits actually received by the contractor. In those instances where contractors have executed agreements with individual airlines for discounts and bonuses, auditors should determine that appropriate credits or cost reductions are being reflected in forward pricing and actual cost submissions, and that appropriate use of the agreement is being made.

### **72-1.6 Fly America Act – International Air Travel**

FAR 47.4, Air Transportation by U.S.-Flag Carriers, implements the Fly America Act. The Fly America Act requires that U.S. Government-financed international air travel be provided by a U.S.-flag carrier, if available. The requirement applies to all international air travel by Federal employees and their dependents, consultants, contractors, grantees, and others, including their personal effects, when paid for by U.S. Government funds. Guidelines for Implementation of the Fly America Act (Case No. B138942), issued by the Comptroller General of the United States on March 31, 1981, are incorporated at FAR 47.403.

FAR 47.403-1, Availability and unavailability of U.S.-flag air carrier service, provides detailed requirements for determining the availability of U.S.-flag carrier service, as well as guidelines that must be followed to ensure that U.S.-flag carriers are used to the greatest extent possible. Contractors are required to use U.S.-flag carriers when they are available, even though a foreign carrier may offer lower fares for the same flight or flight segment. Contractors that frequently travel abroad should have processes and procedures in place to ensure compliance with the Fly America Act.

Although FAR 47.403 provides detailed implementation requirements of the Fly America Act, the regulations do not address code share carrier agreements. Code share carrier agreements are commonplace in the air transportation industry and involve arrangements between carriers where one carrier will book and provide air travel transportation services aboard another carrier's aircraft. The Comptroller General's Decision, B-240956, dated September 25, 1991, views code share arrangements between a U.S.-flag carrier and a foreign carrier as simply a lease of the seats and its crew aboard the aircraft, and as such, the U.S. carrier is responsible for the transportation service for passengers in the leased seats. Based on the Comptroller General's decision, contractors are required under the Fly America Act to use U.S.-flag carriers, or foreign carriers under a code share arrangement with the U.S.-flag carrier, whenever available, unless the contractor can provide adequate justification and supporting documentation, as required by FAR 47.403-1.

To the extent that a U.S.-flag carrier, including code share flights booked through the U.S.-flag carrier, is not used for international air travel funded by the U.S. Government, FAR 47.403-3(a) provides that Agencies shall disallow the costs associated with the air transportation on the foreign air carrier unless adequate justification is attached to the voucher, which notes that a U.S.-flag carrier was unavailable. Requirements of the Fly America Act are to be incorporated into all contracts where international travel is anticipated through the contract clause at FAR 52.247-63, Preference for U.S.-Flag Air Carriers. When the travel is by indirect route or the traveler otherwise fails to use available U.S.-flag air carrier service, the amount to be disallowed is based on the loss of revenues suffered by U.S.-flag air carriers, determined by the formula provided in FAR 47.403-1. However, based on the Comptroller General's decision, 56 Comp. Gen. 209, dated January 3, 1977, the disallowed amount shall not exceed the fare of the segment improperly traveled.

## **72-2 Travel Costs on Contractor Aircraft – Owned, Leased, or Chartered**

### **72-2.1 General Audit Considerations**

FAR 31.205-46(c) sets forth principles and criteria for determining the allowability of costs incurred in the operation and maintenance of contractor-owned, -leased, or -chartered aircraft (collectively referred to as private aircraft).

As a general rule, travel costs via private aircraft in excess of the standard commercial airfare are unallowable. Exceptions to this general rule are described in 72-2.2. The use of private aircraft generally results in higher costs than travel by commercial airlines or other modes of transportation.

### **72-2.2 Conditions for Allowability of Contractor-Owned, -Leased, or – Chartered Aircraft**

As a prerequisite to allowability, the contractor must maintain and make available to the Government full documentation in support of the costs including the manifest/log for all flights (see 72-2.6). If the contractor fails to maintain required documentation or refuses to provide such documentation, the auditor should disallow costs in excess of otherwise allowable standard commercial airfare.

Travel costs via private aircraft in excess of the standard commercial airfare are allowable in two situations:

- (1) when travel by such aircraft is specifically required by contract specification, term, or condition; or
- (2) when a higher amount is approved by the contracting officer.

All or part of excess costs incurred for operating private aircraft may be approved by the contracting officer:

- (1) when one or more of the conditions described in FAR 31.205-46(b) are present that would justify costs in excess of the lowest standard commercial airfare, such as requiring circuitous routing, travel during unreasonable hours, or excessively prolonged travel; or
- (2) when an advance agreement has been executed.

### **72-2.3 Use of Advance Agreements**

When the contractor proposes an advance agreement with respect to the costs of company aircraft, the auditor should evaluate the contractor's proposal and provide audit findings and recommendations to assist the contracting officer in establishing the negotiation objective. The auditor should request technical assistance in areas such as the size, type, and number of aircraft; safety factors; and other technical requirements of aircraft.

In evaluating the contractor's proposal, the auditor should consider major financial and nonfinancial factors. Generally, the contractor must demonstrate that scheduled commercial airline service is not readily available at reasonable times to accommodate the company's air travel requirements. In addition, proximity of commercial airports to the contractor's location as compared to private air fields that are used, or are intended to be used, is also a factor in conjunction with any time savings of key personnel. Increased flexibility in scheduling flights may result in time savings and more effective use of personnel. However, the auditor should be mindful that a contractor in the normal course of conducting its business seldom needs corporate aircraft and that the convenience of corporate aircraft should not be a substitute for the economy of commercial flights. While there may be critical or emergency situations that cannot be effectively handled by commercial flights, such situations generally occur so infrequently that they do not justify the long-term use of corporate aircraft. It is the contractor's responsibility to justify and demonstrate that the need for corporate aircraft truly outweighs cost savings arising from the use of commercial airlines.

The ASBCA ruled (in the General Dynamics case no. 31359, 92-2, BCA 24922) that "time savings, productivity gains, or more effective use of personnel" can be used to demonstrate and justify the higher cost of private aircraft. It is the contractor's responsibility to provide the Government a fully supported submission to demonstrate that these savings exceed the costs of using private aircraft as compared to using commercial airlines. The ASBCA also ruled that it is appropriate for the contractor to consider the value of executive time in the cost-benefit analysis. The ASBCA accepted the concept that the calculation of the value of the executive's time could include an estimate of the executive's value to the corporation in addition to the executive salary and fringe benefits. The ASBCA referred to the estimate of the executive's value to the corporation as a "multiplier." The use of a multiplier by the contractor should not be accepted solely as a result of the ASBCA case. The contractor must provide supporting data to justify any proposed multiplier. If the contractor does not justify the use of a multiplier, the related costs should be questioned.

The costs associated with private aircraft flights should be allocated to all passengers. The information listed in 72-2.6 is required by the cost principle to determine if unallowable trips such as spousal travel have been identified and all allocable costs to the unallowable trips were excluded from reimbursement by the Government. The auditor should recommend that the advance agreement state that unallowable passenger trips be allocated their fair share of costs and these costs should be excluded from requests for reimbursement by the Government.

In situations where the contractor's proposal includes acquisition of an aircraft, either through purchase or capital lease, the auditor should carefully review the feasibility studies the contractor has made in advance of acquiring the aircraft, justification presented to the approving authorities within the company, the contractor's decision, and the implementing procedures adopted. Corporate aircraft costs, once the purchase or capital lease is made, are very much like sunk costs and cannot be rapidly altered by management decision. It is particularly important for the auditor to recommend that the contracting officer not approve the proposed acquisition of the aircraft unless the contractor can demonstrate the cost-effectiveness of corporate aircraft.

When an advance agreement allows only a portion of the corporate aircraft costs, the auditor should recommend that the advance agreement clearly state that allowable cost of money will also be limited to the proportionate amount. This is consistent with the instructions for the form referred to in CAS 414-50(a). These instructions require that the facilities capital values be the same values as those used to generate the depreciation or amortization that is allowed for Federal Government contract costing purposes.

#### **72-2.4 Reasonableness of Contractor-Owned, -Leased, or-Chartered Aircraft Costs**

In situations where all or part of travel costs via private aircraft in excess of the standard commercial airfare are approved by the contracting officer (see 72-2.3), such costs are subject to the determination of reasonableness and allocability. Costs of private aircraft include costs of lease, charter, depreciation, cost of money, operation (including personnel), maintenance, repair, insurance, and all other related costs.

A corporate aircraft is sometimes used for nonbusiness or otherwise unallowable activities. The contractor is required under CAS 405 and FAR 31.201-6 to identify all unallowable costs. The auditor should review the flight manifest/log to determine whether the contractor has excluded the amount allocable to any travel for nonbusiness or otherwise unallowable activities. If the trip is considered unallowable, the auditor should calculate the related unallowable aircraft costs considering the entire costs of the aircraft, both fixed and variable costs.

The size, type, and number of aircraft maintained or chartered are major considerations in evaluating the reasonableness of the costs involved. The auditor should also review the flight manifest/log and other available documentation to determine whether optimum use is made of such aircraft to the extent that they are used for all suitable trips except where the variable costs involved in their use would exceed the trip cost by commercial airline.

Depreciation often represents the major item of contractor-owned aircraft costs. In evaluating it, the auditor should ensure that the allowable amount is determined in accordance with the provisions of FAR 31.205-11. Supplemental audit guidance on depreciation is at Chapter 19, Depreciation Costs. Costs of aircraft overhaul and major component replacement, and their accounting treatment, also merit close audit scrutiny. If

such costs are not capitalized and amortized by the contractor but are expensed in the period they are incurred, the auditor should assure that the procedure does not result in distorting the total aircraft costs for the period involved. Any gain or loss on the disposition of contractor-owned aircraft should be accounted for as provided in FAR 31.205-16.

Audit of private aircraft costs should include the evaluation of the propriety of the method used for their assignment or allocation to Government contracts. When an aircraft is used exclusively by a particular organizational element, such as by the home office, division, or plant, the costs of the aircraft should be charged to that entity. When use is broader based, the aircraft costs should be distributed equitably to all of the user units. Some contracts may provide for travel costs as direct charges. In these cases, the auditor should assure that similar type costs are not duplicated as part of the allocation of aircraft costs to these contracts through overhead. Aircraft may also be used for non-travel purposes, such as instrument testing. Applicable costs should be charged directly to the benefiting projects.

### **72-2.5 Contractor Responsibility**

FAR 31.205-46(c)(2) specifically requires that the contractor must maintain documentation of all travel via private aircraft as a prerequisite of consideration for allowability of such costs. The contractor has the responsibility to support and justify the cost of aircraft usage. This responsibility includes:

- a. identification of all costs associated with private aircraft,
- b. submission of a comparative analysis of costs of private aircraft and standard commercial airfares, and
- c. maintenance of a flight manifest/log.

Costs that are unsupported as a result of a contractor's inability or unwillingness to furnish the required documentation should be disallowed.

**72-2.6 Maintenance of a Flight Manifest/Log by Contractor**

The flight manifest/log which the contractor is required to maintain, plus other necessary backup data, should be in sufficient detail to serve as a source of support for its proposed costs. At least the following information for each flight should be provided:

- a. Date, time, and point of departure (airport).
- b. Date and time of arrival, and destination (airport).
- c. Names of pilot and crew.
- d. For each passenger aboard:
  - (1) Name.
  - (2) Name of company or organization represented.
  - (3) Position held in company or organization.
  - (4) Authorization for trip.
  - (5) Purpose of trip.