Interpretive Guidance Document

Meals

Architectural & Engineering Firm
Indirect Costs

WSDOT Internal Audit Office

August 13, 2013
This Interpretive Guidance Document will focus on Meals. Meals can typically be found in various categories in a firm’s Indirect Cost Rate schedule, depending on the type of meal. The most common categories that we see are:

- Travel - Meals incurred during official company travel
- Training - Meals incurred during a conference or other training
- Meeting - Meals incurred during the work day for a variety of reasons
- Relocation - Meals associated with the relocation of an employee

Each of these categories has criteria and documentation requirements. This Interpretive Guidance Document is provided to discuss each of these categories of meals and the documentation requirements for allowability.

Materiality, reasonableness, and documentation are considered for all meal costs. Complete & thorough supporting documentation for meal expense is extremely important to determine allowability. The A&E firms bear the burden of proof in regard to allowability of expenses.

General criteria from 48 CFR Part 31 are shown below that apply to all meals:

48 CFR 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

1 Travel meals directly associated to a project should be billed in accordance with terms & conditions of the agreement.

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

Travel

Travel meals are the most common type of meal that is found in a firms’ Indirect Cost Rate (ICR) schedule. The allowability of a travel meal is directly associated with the allowability of the travel. If the travel is unallowable per the FARs (i.e. travel related to public relations) then the associated meal cost is also unallowable, 48 CFR 31.201-6.

The following information is required to support the travel and provide information to determine allowability. Please include the following for travel meal costs:

- Name & job title of traveler;
- Date and destination of travel where the expenses were incurred;
- Documentation of employee’s official work location and work schedule (to include days/hours worked) is necessary; and
- Purpose of the travel.

The purpose should be detailed enough to support allowability, for example: The purpose of “attend meeting” or close variation does not provide adequate support to determine allowability. A purpose of “attend meeting to discuss updates of ABC project delivery timeline with WSDOT management” provides support to show specific project, why there was a need for the meeting and who was involved in the meeting.

If employees are reimbursed for their meals on an actual-cost basis, an itemized receipt should be available to support the cost of the meal. An itemized receipt provides documentation to support the meal cost such as number of meals purchased and allowability of purchase (i.e. alcohol is unallowable per 48 CFR 31.205-51). Alternatively, firms may reimburse their employees for meals on a per diem basis, in which case, receipts are not required. If meals are reimbursed on a per diem basis the documentation must include travel start and end times, the employee’s work schedule, travel origin & destination, and length of stay. Whichever method of reimbursement is chosen, meal costs are subject to the limitations of the maximum per diem rates for the locale in accordance with the Federal Travel Regulations (FTR).
Many A&E firms rely on the General Services Administration (GSA) rates found at [http://www.gsa.gov/portal/content/104877](http://www.gsa.gov/portal/content/104877) for determining the allowable per diem rates for meals, and use the lump sum method for reimbursements of those travel meals. When using this method please note that the employees are only eligible for 75 percent of the total meal reimbursement rate on the first and last day travel day. Documentation supporting the allowability of the travel itself is still a requirement for use of this method.

Please note that meals incurred at the locale of the employee’s official duty station do not meet the eligibility requirements for a travel meal. An employee is not in travel status when a meal is incurred in the same locale as where they work or live. See the Meeting section below for an exception to this general statement.

Reference 48 CFR 31.205-46 (a) (7).

**Conference or Training**

Meals associated with training activities, such as seminars and conferences, are allowable when the training has an allowable business purpose. The same meal period provided by the conference cannot also be claimed as a travel cost; allowability is applicable to one meal and must be within the FTR meal rate for the location. ²

Reference FAR 31.001 – Directly associated cost.
AASHTO Audit Guide, Chapter 8.2-B, 8.2-C, and 10.4 - B, number 4.

**Meeting**

² If the training/conference/seminar purpose is not allowable then all related expenses are unallowable per 48 CFR 31.201-6. If applicable, this would include travel, lodging, meals, and the associated labor time. Airfare, rental vehicles, and mileage could also be unallowable expenses related to the event. Further, if costs are related to trade show booths the related expenses also include the costs for brochures, handouts, promotional items, etc. and are unallowable.
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Meals at the business location or in the same locale as the firm’s office do not meet the requirements for travel meals. During our review of Indirect Cost Rates, we often see lunches for employees provided by the firm. These meals are considered to be non-travel meals. For individuals not on official travel, any meal expense must be an integral part of the meeting as described in 48 CFR 31.205-43 (c).

For a non-travel meal to be allowable documentation is expected to be available to demonstrate the following:

- Date & location of meeting
- Names of attendees – best practice is to include a sign-in sheet. Please include job titles for attendees.
- Purpose of the meeting – best practice is to have an agenda. The purpose should have sufficient detail to support allowability.
- Itemized receipt – Receipt must show cost of meal by item. Meal cost is limited to applicable meal allowance for location. Alcohol is unallowable per 48 CFR 31.205-51.
- Reason for the necessity to include meal during meeting – documentation to support incurring meal cost for meeting. (the meal must be an integral part of the meeting)

Frequency of non-travel meals is a factor in determination of allowability and reasonableness. Infrequent costs are normal but excessive non-travel meals are found to be unreasonable and unallowable per 48 CFR 31.201-2 and 31.201-3.

An example of an allowable non-travel meal is when a firm is implementing a new phone system. Documentation is available to support the implementation requirement for all staff to be in attendance. The phone system was to be installed during normal business hours and training was to be provided during the normal meal period. The firm provided lunch for the staff while they attended the in-house training for the new phone system. Documentation of an itemized receipt was provided to support that the meal cost was within the per diem allowable for the locale and employees completed a sign-in sheet to support their attendance. A detailed training agenda was also made available.

Other Meeting Meals (during non-travel status)
We see various other meals that do not meet the requirements for travel meals. These meals often fall into the category of a social activity, and as such are unallowable entertainment per 48 CFR 31.205-14.

In our audit experience, we have seen meals for birthday lunches, lunch provided to discuss employee service & evaluation, lunches to welcome new staff & departing staff, lunch to discuss projects, recruitments, etc., staff working lunches, and breakfast meetings. We have also seen costs for cookies, donuts, pastries, snacks, Starbucks visits, bagels, etc. This list is not all inclusive. These types of costs are considered to be unallowable, in accordance with 48 CFR 31.205-14, 31.201-2 and 31.201-3.

The FARs provides for employee morale costs, however, this does not include the above referenced types of meals or expenses. The above types of meal costs are not ordinary and necessary for conducting a firm’s business, and are not considered reasonable based on our auditor judgment. We do recognize that some firms may want to provide these types of activities and meals for their staff and we find that it is very commendable, but it is not an expense that is allowable and would not be recovered through the firm’s indirect cost rate for government contracts.

Client meetings often include a meal for the purpose of direct selling. Selling Costs at 48 CFR 31.205-38 (b) (5) is silent on the inclusion of meals for these meetings. Meals are not ordinary & necessary for such a meeting.

Local meetings which include dinner are outside the normal business hours and are not considered to be ordinary & necessary and are, therefore, considered social in nature and entertainment (these are non-travel dinners).

Reference Entertainment 48 CFR 31.205-14, and 48 CFR.
AASHTO Chapter 8.8 and 8.9.
Reference AASHTO Audit Guide, Chapter 6.3-B.3, and 8.24.
Relocation

A lump sum amount, not to exceed $5,000, may be allowed in lieu of actual costs for relocation of a company employee. Meals included in the $5,000 amount must be adequately supported.

Reference 48 CFR 31.205-35 (a) & (b).
See AASHTO Audit Guide, Chapter 8.22, Relocation Costs.