Washington State
Department of Transportation

Interpretive Guidance Document

Meals

Architectural & Engineering Firm Indirect Costs

WSDOT Internal Audit Office

September 1, 2016 Update

(Originally published August 13, 2013; the guidance in this document applies to indirect costs incurred after August 31, 2016)

Interpretive Guidance Document – Meals

This Interpretive Guidance Document will focus on **Meals**. Meals can typically be found in various categories in a firms' Indirect Cost Rate schedule, depending on the type of meal[1]. 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 supporting documentation for meal expense is important to determine allowability. The Architectural and Engineering (A&E) firms bear the burden of proof in regard to allowability of expenses. 48CFR 31.201-3, Determining reasonableness, applies when determining allowable meal costs. Please see the following rule below:

> *(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... 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… ordinary and necessary…*
> *(2) Generally accepted sound business practices, arm's length bargaining,…*
> *(3) The contractor's responsibilities to the Government, other customers, the owners of the business, employees, and the public at large…*
> *(4) Any significant deviations from the contractor's established practices.*

[1] Travel meals directly associated to a project should be billed in accordance with terms & conditions of the agreement. Standard WSDOT A&E Agreements require that travel meals comply with the requirements in the WSDOT Accounting Manual, M13-82, Chapter 10 Travel.

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Travel Meals

Travel meals are the most common type of meal that is found in a firms' Indirect Cost Rate (ICR) schedule. The requirements for allowable indirect travel meal costs are in 48 CFR 31.205-46.

The allowability of a travel meal is also directly associated with the allowability of the travel. Please note that if the travel is unallowable per the Federal Acquisition Regulations (FAR) (i.e. travel related to public relations) then the associated meal cost is also unallowable, 48 CFR 31.201-6.

The following information is important to meet the requirements for adequate supporting documentation and to determine allowability of the travel 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. (Include days/hours worked.)
- 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 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 travel day. Documentation supporting the allowability of the travel itself is still a requirement for use of this method.

Please note that meals incurred within 50 miles 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.

Criteria:
48 CFR 31.205-46 (a) (7)
Federal Travel Regulation 300-3.1
AASHTO Audit Guide Chapters 8.1-A, 8.1-C, and 8.26

Conference or Training Meals

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].

Criteria:
48 CFR 31.001(definition of Directly Associated Cost)
AASHTO Audit Guide, Chapter 8.2-B, 8.2-C, and 10.4 - B, number 4.

[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.

Meeting Meals

Meals at the business location or in the same locale as the firm's office are allowable if they meet specific rules. Non-travel business meals are governed by 48 CFR 31.205-43(c), which provides that incidental meal costs incurred during business meetings are allowable if the principal purpose of the meeting is the dissemination of trade, business, technical, or professional information.

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 meals.
- Reason for the necessity to include meals during the meeting
    - Supporting documentation, such as the agenda, that indicates the meal is an integral part of the meeting.

Once non-travel meals meet the requirements above, frequency and cost of those meals must also be evaluated to determine allowability. For this evaluation we would apply 48 CFR 31.201-2 and 31.201-3. We look first to the amount being limited to the applicable per diem rate for the location, but will consider a firm's written policy addressing this issue. Please note that alcohol is an unallowable cost per 48 CFR 31.205-51.

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.

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. For example, meals for birthday lunches, lunch provided to discuss employee service and evaluation, and lunches to welcome new staff. 48 CFR 31.205-13 discusses employee morale costs; however, this does not include meals.

Criteria:
48 CFR 31.205-14
AASHTO Audit Guide, Chapters 6.3(B.3), 8.8, 8.9, and 8.24

Relocation Meals

Meal reimbursement on a lump-sum basis may be allowed as a component of the relocation costs associated with finding a new home, traveling to the new location, and staying in temporary lodging if adequately supported. Adequate support should include detailed calculations of the individual cost elements 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.

Under the lump-sum payment approach, records of actual costs incurred are not required. However, to assess allowability of the lump-sum amount to be reimbursed, the individual elements (including meals) comprising the lump-sum must be evaluated based on the limitations in 48 CFR 31.205-46. Firms should have established 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. When reimbursement on a lump-sum basis is used, any adjustments to reflect actual costs are unallowable.

Criteria:
48 CFR 31.205-35 (b)(6)(i)&(ii)
48 CFR 31.205-46
AASHTO Audit Guide, Chapter 8.22