



**Washington State  
Department of Transportation**

# Interpretive Guidance Document

## *Allowable Airfare Costs*

**Architectural & Engineering Firm**

**Indirect Cost Rate**

**WSDOT Internal Audit Office**

**December 24, 2013**

## Interpretive Guidance for Airfare Expense

This Interpretive Guidance Document will address **Airfare**, and the allowable amount that can be charged by Architectural and Engineering (A/E) Consultants in their Indirect Cost Rate (ICR).

The Federal Regulations changed in 2010 regarding allowable airfare: FAR 31.205-46(b) and (c) were revised in a final rule published in the Federal Register (FR), effective January 11, 2010, to limit allowable airfare costs to the lowest priced airfare available to the consultant. The following interpretive guidance is designed to assist A&E firms in meeting the intent of the Federal Regulations.

There can be many airfare options available when booking a flight, and it is important to document support at the time of shopping that the lowest priced airfare was purchased<sup>1</sup>. Strong company policies and procedures that are consistently followed can provide assurance to WSDOT Auditors that a firm is pursuing the lowest priced airfare. This interpretive guidance is not designed to discuss all possible scenarios but, rather, to provide information on the most common occurrences.

### Rule Change

Due to the rule change effective January 11, 2010, A/E firms must maintain detailed records showing the “lowest priced airfare available to the contractor” was purchased. Firms may receive reduced pricing as a result of a direct negotiation with airlines or travel agents. Therefore, the lowest customary standard, coach, or equivalent airfare, as previously listed in 48 CFR 31.205-46, **may not apply**.

#### 48 CFR 31.205-46 Travel costs:

(b) Airfare costs in excess of the lowest priced airfare available to the contractor during normal business hours are unallowable expect when such accommodations require circuitous routing, require travel during unreasonable hours, excessively prolong travel, result in increased cost that would offset transportation savings, are not reasonably adequate for the physical or medical needs of the traveler, or are not reasonably available to meet mission requirements. However, in order for airfare costs in excess of the above airfare to be allowable, the applicable condition(s) set forth above **must be documented and justified**. (Emphasis added)

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<sup>1</sup> Often the lowest priced available airfare includes several transfers and delays between flights; to compensate for this, FAR allows for more direct routes as long as specific conditions are documented per 48 CFR 31.205-46(b).

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### Company Policy

FHWA and the AASHTO Audit Subcommittee agree that A/E firms should have a policy in place to meet the intent of 48 CFR 31.205-46 and apply the policy consistently. There is no expectation for firms to maintain documentation of every available flight; rather firms should have strong policies and procedures in place that reinforce pursuit of the lowest priced fare. A well written policy would provide assurance to auditors that consultants are pursuing the lowest priced available fare. Based on company policies, procedures and best practices we have observed, the following is a list of elements that should be incorporated into a firm's travel policy which relates to purchase of airfare:

- Effective date of the policy.
- Policy signed as approved by the firm's executives.
- Formalized & communicated to all staff.
- Advance purchase requirement. (Requirement for ticket to be purchased in advance as much as possible.)
- No first class airfare allowed – however, if first class airfare is purchased, document lowest available fare at that time and subtract the difference from indirect costs.
- Centralized booking within the firm's organization to assure compliance.
- Establish approved cost differential for non-stop flights. Often the lowest priced available airfare includes several transfers and delays between flights; to compensate for this, FAR allows for more direct routes as long as specific conditions are documented per 48 CFR 31.205-46(b).
- Specify selection may **not** be based on carrier preference and/or rewards programs.
- Procedures for periodic monitoring and compliance review.
- Document the following for each travel expense:
  - Travel date
  - Destination
  - Name of traveler, title, relation to consultant
  - Business purpose – written justification for travel (in lieu of use of teleconference or video conference)
  - Detailed receipt for the airfare to include the class of service (include the explanation of respective airlines fare codes)

The above list is not all inclusive, and the policy should be geared toward the firm. It is important to document how & when the policy is communication to

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employees and compliance monitoring. There are so many options available when booking flights, strong company policies that are consistently followed will help reinforce that employees are consistently pursuing the lowest priced available airfare.

### Nonrefundable Airfare

Firms must also consider nonrefundable airfares as part of the advance planning to determine the lowest possible fare. Infrequent costs associated with cancelling or changing restricted or non-refundable tickets may be considered an ordinary and necessary business expense. However, if historical data show inadequate advance planning the cancellation or change fees **may not be allowable**. In these cases, the firm should document the need to buy fully refundable and changeable tickets.

### Business Class Upgrade

Although the Federal Travel Regulation has adopted the “14-hour rule” to travel other than coach class on certain occasions (FTR §301-10.125), the Civilian Agency Acquisition Council and the Defense Acquisition Regulation Council did not adopt this ruling for 48 CFR Part 31 (Federal Register 63 FR 43239). Therefore, business class is considered unallowable. As with first class, document the lowest available fare available at that time and subtract the difference from indirect costs.

### Allowability/Reasonableness

As with any expense included in the indirect cost rate schedule, the allowability and reasonableness test apply.

48 CFR 31.201-2 (d) Determining allowability:

(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, **including supporting documentation**, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.  
(Emphasis Added)

48CFR 31.201-3 (a) Determining reasonableness:

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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.  
(Emphasis Added)

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

### **Direct Airfare Costs**

Regarding project- specific airfare (direct airfare costs), the firm's needs might indicate the mode and timing of travel, however, documentation of this is key to allowability. In addition, non-billable project-related airfare would remain a direct cost, not included in the Indirect Cost Rate Schedule. For WSDOT agreements, air travel will be reimbursed, as a direct cost, only to the economy class level (lowest priced) unless otherwise approved in writing for the specific travel event. Additionally WSDOT agreements refer to compliance with the Washington State Department of Transportation's Accounting Manual, M 13-82, Chapter 10 – Travel Rules and Procedures for direct non-salary costs; contact your respective WSDOT program manager for details.

### **Contractor-owned aircraft**

There are several considerations regarding travel by contractor-owned, -leased, or -chartered aircraft. Please refer to 48 CFR 31.205-46(c) and AASHTO Audit Guide – Chapter 8.26, C. for additional guidance or speak with the WSDOT Audit Office for guidance on how these costs are reimbursed.