

# FAR Part 31 Training



Redstone  
Government Consulting

*Helping You Navigate the Maze of Government Contracting*



## Instructors

Courtney Edmonson, CPA

Michael Steen



# About Redstone Government Consulting, Inc.

## Who Are We?

- **GovCon Industry Experts** – CPAs, attorneys, and retired government audit and acquisition professionals
- **Compliance-Focused** – Specializing in DCAA, DCMA, and FAR/CAS compliance to enable contractors to succeed
- **Dedicated to Government Contractors** – Helping businesses navigate complex compliance requirements

## What Do We Do?

- **GovCon Compliance** – FAR/CAS Compliance, Audit Support, SCA Compliance and DCAA/DCMA-Approved Systems
- **Outsourced Services** – Accounting, Human Resources, and Contract/Subcontract Support
- **ERP & Systems Consulting** – Costpoint, Unanet, QuickBooks, UKG Ready, and Integrated Solutions
- **Gov-Con Focused Training** – Customized Training, Webinars, Seminars and LMS courses



# Why Redstone Government Consulting, Inc.?

At Redstone GCI., we don't just advise — we solve problems.

With **decades of industry expertise** and a **proactive approach**, we **anticipate challenges** before they arise.

Our clients trust us to **provide cutting-edge expertise** in **all areas of government contracting**.

**No challenge is too complex, and no issue is too technical—**  
we provide the expertise and solutions to keep your business compliant, efficient, and mission-focused.



# Comprehensive Solutions for Government Contractors

From Pre-Audit to Post-Contract Closeout—We Provide Expert Guidance Every Step of the Way

## Audit & Regulatory Compliance

- DCAA Audit Support
- Internal Investigations & Audit Support
- CAS Compliance
- FAR Compliance
- Incurred Cost Proposal Support
- SCA Compliance
- OFCCP Compliance
- Policy & Procedure Development

## Business System Compliance

- Accounting & Billing System
- Estimating System
- Material Management & Accounting System
- Earned Value Management Systems
- Contractor Purchasing System Review
- Government Property Management System

## Outsourced Support Services

- Accounting
- Human Resources
- Contracts & Subcontracts Administration
- Grants & Cooperative Agreements
- Organizational Change Management
- Manufacturing Operations
- ITAR/EAR Compliance Support

## Cost, Pricing & Program Support

- Indirect Rate Strategy
- Proposal Pricing & Cost Volume Support
- Commercial Determinations
- Program Cost Control & Program Management
- Contract Dispute & Adjustment Support

## Software & Technology Consulting

- Deltek Costpoint
- Unanet ERP & CRM Software
- QuickBooks Software
- UKG Ready HR Software
- Custom Reports & Data Analytics

## Compliance Training Services

- Customized Training Solutions
- Learning Management System
- Webinars (Live & OnDemand)
- Seminars & Workshops



# Courtney Edmonson, CPA

Chief Executive Officer



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- Courtney has extensive experience with Federal Acquisition Regulation (FAR) and Cost Accounting Standards (CAS) compliance, evaluation and preparation of Cost Presentations, cost accounting systems setup and reviews, and policy and procedure preparation. This technical experience gives her the background needed to lead a high-performing managerial team and the leadership skills necessary to establish a growth mindset within the organization. Prior to her career in consulting, Courtney served as a financial statement auditor for large and mid-tier government contractors. This experience helped her to develop a deep knowledge of the markets and industry in which Redstone operates.
- Courtney is the Chief Executive Officer for Redstone Government Consulting, Inc. She is responsible for guiding the direction of the organization after spending several years as a vital member of the consulting and management team. Her entrepreneurial mindset and deep knowledge of the company and the government contracting industry have enabled Courtney to provide financial and operational leadership for Redstone while implementing a strategic vision for Redstone's team and company growth.





# Michael Steen

Emeritus Advisor

- Overview

- Mike Steen is an Emeritus Advisor with Redstone Government Consulting, Inc. and a specialist in complex compliance issues to include major contractor cost accounting & business system regulations, financial compliance, resolution of DCAA audit issues, Cost Accounting Standards application, litigation support, and claims preparation.

- Background

- Over thirty years with the DCAA,
  - Top seven senior executives with DCAA,
  - Regional Director for two DCAA regions, during which time was responsible for audits of approximately \$25B and 800 employees.
- Since joining Redstone Government Consulting in June 2007, Mike has developed and presented training and seminars on Government Contracts Compliance to NCMA, Federal Publications Seminars and various clients. Mike also is a prolific contributor of written articles to government contracting publications, as well as to our own Government Insights Newsletter. Mike also serves as the director of our training service offerings, with responsibilities for preparing and developing course content as well as instructing our seminars to clients and general audiences throughout the U.S. Mike also serves as a faculty instructor for the Federal Publications Seminars organization.

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# Upcoming Training

## Live Events

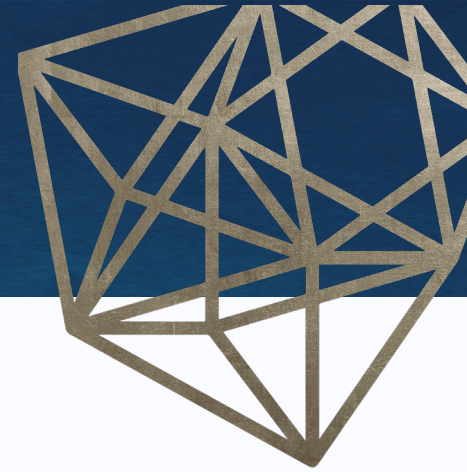
- Unlocking Deltek Costpoint's Custom Report Writing Power Workshop - [April 23, 2025](#)
- CFO Roundtable - [June 17, 2025](#)
- The Redstone Edge Conference 2025 - [September 17th, 2025](#)

## Webinars

- When Change Happens: Navigating Through Contract Terminations Training Webinar - [March 25, 2025](#)



# Course Objectives



- **US Government's Goal – Fair and Reasonable Price**
- **FAR Part 31 Cost Principles**
- **Accounting for Unallowable Costs**
- **Allocability, Reasonableness, & Documentation Standards**
- **Review of Selected Costs FAR 31.205**



# US Government's Goal in Procurement Process

Obtain supplies and/or services for a  
*Fair and Reasonable Price*

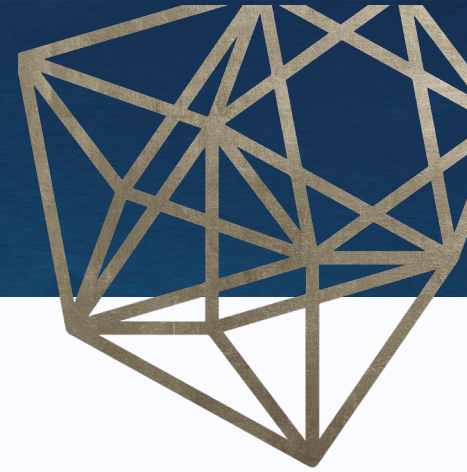
Meaning the price includes no  
unallowable cost



# Objectives of Good Financial and Cost Accounting Systems: Government's Perspective

- **Government wants to pay *ONLY* its fair share of allowable and allocable costs for its contracts.**
- **Government does not want to share in costs of other contracts or in costs that are unallowable per law, regulation, or contract terms.**
- **Solid accounting system facilitates objective of Government attaining fair & reasonable price.**

# Procurement Regulations Affecting Financial and Cost Accounting



## ■ The FAR

- FAR is “umbrella” procurement regulations
- Each agency can develop its own supplement to the FAR

## ■ Key FAR sections

- Contractor Qualifications (FAR Part 9)
- Contracting by Negotiation (FAR Part 15)
- Cost Accounting Standards Administration (FAR Part 30)
- Contract Cost Principles (FAR Part 31)
- Contract Financing (FAR Part 32)
- Contract Administration (FAR Part 42)
- Contract Clauses (FAR Part 52)

(<https://www.acquisition.gov> – great site for reviewing these regulations)

**FAR PARTS**

- Index
- List of Sections Affected
- DOD Deviations
- CAAC Deviations
- 1 2 3 4 5
- 6 7 8 9 10
- 11 12 13 14 15
- 16 17 18 19 20
- 21 22 23 24 25
- 26 27 28 29 30
- 31 32 33 34 35
- 36 37 38 39 40
- 41 42 43 44 45
- 46 47 48 49 50
- 51 52 53
- Chapter 99 (CAS)

**ACQUISITION.GOV** Covid 19 Section 889 Regulations Tools Policy Network

Home > Regulations > FAR

### FAR

Full FAR Download in Various Formats

FAC Number	Effective Date	HTML	DITA	PDF	Word	EPub	iTunes	Kindle
2022-04	01/30/2022							

Browse FAR Part/Subpart and Download in Various Formats

Parts/Subparts	HTML	DITA	Print
+ Part 1 - Federal Acquisition Regulations System			
+ Part 2 - Definitions of Words and Terms			
+ Part 3 - Improper Business Practices and Personal Conflicts of Interest			
+ Part 4 - Administrative and Information Matters			



# What Requires FAR part 31 in Pricing



- FAR 15.404-1(c)(2)(iv) requires the contracting officer to verify the contractor's proposal complies with FAR part 31 when cost analysis is performed
- FAR part 15.408, Table 15-2(A)(8) requires the contractor to state whether the proposal is consistent with the contractor's established estimating policies, accounting policies, and FAR part 31

Basically, when there is no competition, or the product or service being sold is not commercial (FAR 2.101 definition of commercial)



# What Requires FAR part 31 after Award

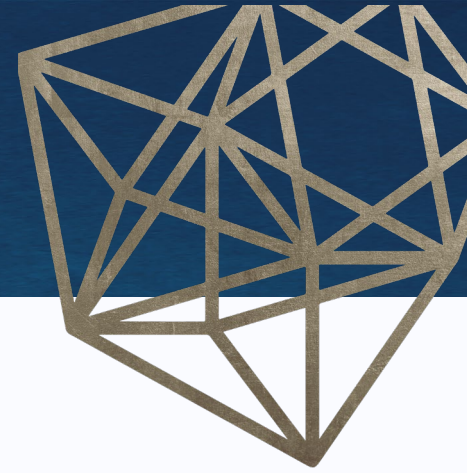


- FAR 52.216-7 requires the contractor's reimbursed cost to be an amount determined to be allowable by the Contracting Officer in accordance with FAR part 31 (Cost Reimbursement)
- FAR 52.232-7 requires the cost of material be subject to the Contracting Officer determining allowable costs of materials in accordance with FAR part 31 (Time & Material)
- FAR 52.216-16 & -17 requires price revision based on cost in accordance with FAR part 31 (Fixed Price Incentive)

Basically, any cost reimbursement or redetermination after award is subject to FAR part 31 (e.g., termination, progress payment, etc.)



# Structure of FAR Part 31



## **31.001 - Definitions**

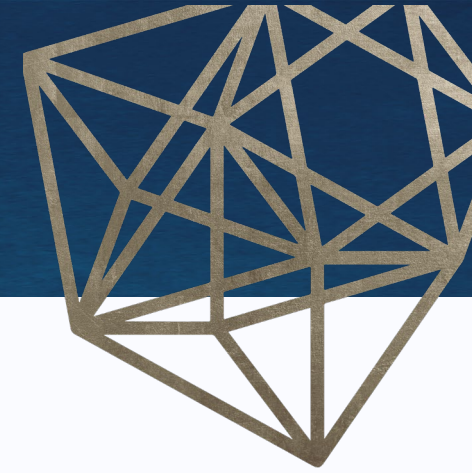
### **31.1 - Applicability**

### **31.2 - Commercial Organizations**

- 31.201-1 Composition of total cost
- 31.201-2 Determining allowability
- 31.202-3 Determining reasonableness
- 31.201-4 Determining allocability
- 31.201-5 Credits
- 31.201-6 Accounting for unallowable costs



# Structure of FAR Part 31

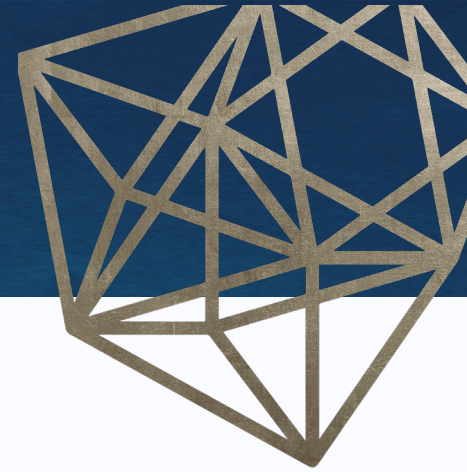


## 31.2 - Commercial Organizations (continued)

- 31.202 Direct costs
- 31.203 Indirect costs
- 31.204 Application of principles and procedures (including “similar to” provision)
- 31.205 Selected costs

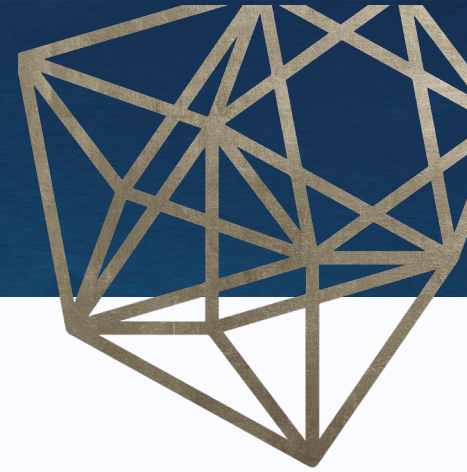


# FAR 31.202 Direct costs



- No contract shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose in like circumstances have been included in any indirect cost pool to be allocated to that or any other contract.
- Direct costs of the contract shall be charged directly to the contract.
- All costs specifically identified with other contracts are direct costs of those contracts and are not to be charged to a different contract directly or indirectly.
- An immaterial direct cost can be treated as an indirect cost, if the accounting treatment-
  - Is consistent and
  - Does not materially impact cost on contracts

# FAR 31.204(d)



- FAR 31.205 does not address every cost
- Costs not addressed are neither allowable or unallowable as a result
- Unaddressed costs are determined allowable or unallowable based on “the treatment of similar or related” costs
- If more than one cost principle applies, the cost should be apportioned
- If the cost cannot be apportioned, the cost principle “that most specifically deals with, or best captures the essential nature of, the cost at issue” should be used



# FAR 31.203 Indirect costs



- After determining direct costs, indirect costs are those remaining.
- No contract shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose, in like circumstances, have been assigned as a direct cost.
- Indirect costs need to be accumulated by logical cost groupings.
- The base selected shall allocate the cost based on the benefits accruing to contracts and intermediate groupings.
- “When substantially the same results can be achieved through less precise methods, the number and composition of cost groupings should be governed by practical considerations and should not unduly complicate the allocation.”
- The base shall not be fragmented (i.e., include some contracts and not others).
- The allocation methods must be reviewed regularly (i.e., revisions should be made as needed)

# FAR 31.201-5 Credits

**The applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund.**



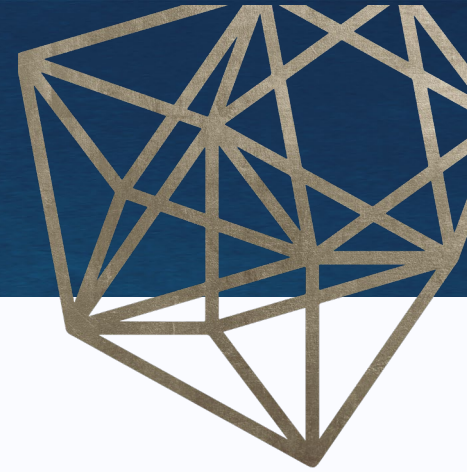


# CAS/FAR Part 31 Cross Reference



CAS Reference	FAR Reference	CAS Reference	FAR Reference
401	31.201-1 & 31.203	411*	31.205-26
402	31.202 & 31.203	412	31.205-6(j)
403	31.203 & 31.201-4	413	31.205-6(j)
404	31.201-2 (ASC-IFRS)	414	31.205-10
405	31.201-2 & 31.201-6	415	31.205-6(k)
406	31.203(g)	416	31.205-19
407*	31.001 & 31.201-1	417	31.205-10
408*	31.001 & 31.205-6(m)	418*	31.201-4 & 31.203
409	31.205-11 & 31.205-16	420	31.205-18
410*	31.203 & 31.201-4		

\* – While the CAS is not specifically mentioned, DCAA uses the CAS as a basis of a reasonable measurement



# Accounting for Unallowable Costs



# Accounting for Unallowable Costs



- **FAR 31.201-6 requires contractors to have an accounting system that will identify incurred unallowable costs (requiring the accounting practices provided in CAS 405)**
- **Requirements:**
  - Expressly, mutually-agreed to, or CO determined unallowable costs must be excluded from proposals, claims, & billings for contracts covered by FAR 31
  - All contracts subject to FAR Part 31 will adhere to CAS 405
  - Directly associated costs must be excluded, unless immaterial (see next slide)

# Accounting for Unallowable Costs



- FAR 31.201(e)(2) Salary expenses of employees who participate in activities that generate unallowable costs shall be treated as directly associated costs to the extent of the time spent on the proscribed activity, provided the costs are material in accordance with paragraph (e)(1) of this subsection (except when such salary expenses are, themselves, unallowable). The time spent in proscribed activities should be compared to total time spent on company activities to determine if the costs are material. Time spent by employees outside the normal working hours should not be considered except when it is evident that an employee engages so frequently in company activities during periods outside normal working hours as to indicate that such activities are a part of the employee's regular duties.



# Accounting for Unallowable Costs



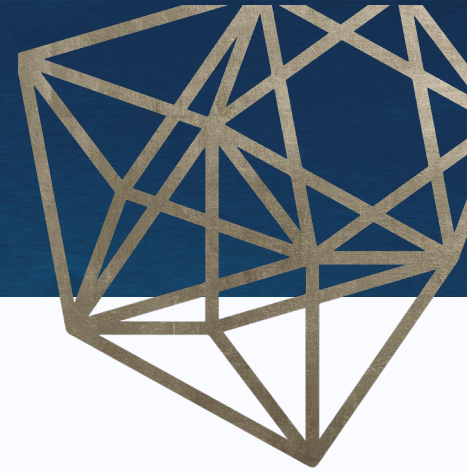
## What are unallowable costs?

- CAS 405-30(a)(4)—any cost which, under provisions of any pertinent law, regulation, or contract, cannot be included in prices, cost reimbursements, or settlements under a US Government contract to which it is allocable

## What are expressly unallowable costs?

- CAS 405-30(a)(2)—costs which, under the express provisions of an applicable law, regulation, or contract, is specifically named and stated to be unallowable. These would include:
  - Costs specifically named in FAR Part 31.205 as unallowable
  - Costs within contract terms specifically named with restrictions, or as unallowable in their entirety

# Acceptable Methods of Accounting for Unallowable Costs



Separate series of accounts, specifically identified for capturing different categories of unallowable costs



Transactions coded as Unallowable within various expense accounts - capable of identifying and extracting via report writer individual transactions



Off the books spreadsheets - as long as transactions identified can be reconciled to GL



# Acceptable Methods of Accounting for Unallowable Costs



## Statistical sampling:

- Unbiased, valid sample, and sampling technique
- Large dollar or high-risk transactions removed from universe
- Permits audit verification
- Any items in sample that carry penalties provisions will be projected over universe
- Advance agreement should be executed for sampling
- Suggest discussing plan with DCAA auditors
- High volume of transactions

# Accounting for Unallowable Costs



- **FAR 31.110 Final Year-end Indirect cost rate certification and penalties on unallowable costs**
- **FAR 52.242-3 Penalties for Unallowable Costs**
  - Applies to all contracts over \$800K, generally the contract includes the clause at 52.216-7, 52.216-16, or 52.216-17, or a similar clause
  - Penalties may be assessed if unallowable indirect costs are included in year-end indirect cost proposal:
    - Expressly unallowable—named as unallowable in cost principles—penalty equal to one times unallowable amount
    - CO determined unallowable by written decision before rate proposal submitted—penalty equal to two times unallowable amount

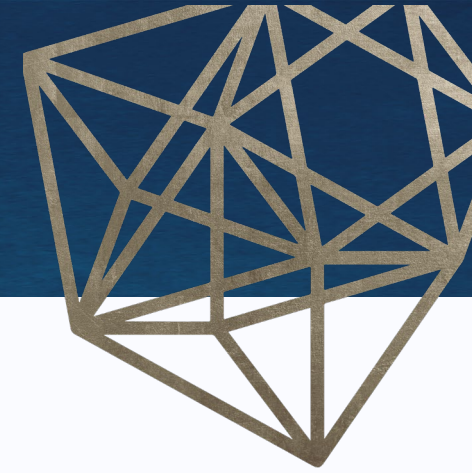
**Penalties clause does not flow down to subcontracts nor impact direct costs**



# Do we have an unallowable cost accounting problem?



- Jim Bell, Inc.'s accounting department codes all unallowable cost transactions when entered, but does not segregate those costs into separate “unallowable” GL accounts
- Bush-Hog Bob's Armory, Inc. waits until year-end before “estimating” unallowable expenses
- Projected bid G&A rate for FY 2025 is based on FY 2020 to 2024 history; G&A costs do not segregate unallowable costs
- L.J. Limited uses a percentage adjustment of 10% to remove estimated unallowable travel costs from its actual cost incurred



# Allocability, Reasonableness, & Documentation Standards



# FAR Part 31.201-4 Determining Allocability

Assignable to cost objective on basis of relative benefits received

Benefits the contract either directly or indirectly

Causal/beneficial relationship between cost and contract:

- Direct—can be identified to one contract, or
- Indirect— not identified to any one contract, but can be distributed to contracts in reasonable proportion to benefits received, or
- Is necessary for overall operation of company although cannot be identified to one cost objective

# FAR Part 31.201-3

## Determining Reasonableness

Does not exceed the cost a prudent person would incur in conduct of competitive business

Ordinary and necessary

Sound business practices

Arm's-length bargaining

Business responsibilities to customer and employees

Consistent with company's business policies & practices



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# FAR Part 31.201-3

## Test of Reasonableness

### For costs to be **reasonable**:

- Necessary given type of business
- Amount for service or supplies does not exceed that which is ordinarily paid in the competitive marketplace

### Costs are always **unreasonable** in amount if they:

- Are not considered allocable to contract
- Are deemed expressly unallowable in FAR 31.205
- Not allowed by contract terms

**No presumption of reasonableness exists just because a cost was incurred**

**If government challenges reasonableness, responsibility of contractor to support**

# FAR Part 31.2 Documentation

FAR 31.201-2(d) states:

- It is contractor's responsibility to properly support proposed or billed costs to demonstrate allowability
- Failure to have adequate documentation to substantiate allowability **may** result in disallowance of costs



# DoD IG Apr to Sep 2024 Report to Congress



## Significant DCAA Findings – Incurred Cost

- \$60.7M due to failure to use US-flag carriers for shipments (FAR Part 47 not Part 31)
- \$25.5M due to failure to register IR&D project in DTIC and IR&D cost not incurred in current year
- \$16M unsupported bonuses
- \$11.5M for merger activities
- 2020 Incurred Cost - \$35.2M due to lack of support
- \$7.9M due to impairment expense for an asset
- \$7.5M due to no commercial determination on inter-divisional
- \$4.8M due to unreasonable compensation



# Documentation Standards

**Government must be able to determine if a direct or indirect expense is:**

- Reasonable
- Allocable
- Allowable

**Under the provisions of FAR Part 31**





# Documentation Standards

**This means that source data should identify:**

- Nature/type of expense
- Purpose of cost
- If direct, coded to specific project
- If indirect, coded to specific indirect account
- Amount of expense from a third party and why that amount is reasonable

# Documentation Standards

## Types of costs contractors most often fail to properly document for allowability:

- Legal and other professional services
- Executive compensation, incentive plans, bonuses
- Business meetings, technical seminars, business meals (not in travel mode)
- Travel and relocation
- Rental costs where related party transactions are involved



# Documentation Standards

**Written accounting policies and procedures are expected, if not mandated for:**

- Timekeeping & labor distribution
- Job cost segregation of direct and indirect costs
- Incentive compensation (bonuses)
- Purchasing and subcontracting policies
- Travel & relocation
- Accounting for unallowable costs
- Capitalization & depreciation of tangible assets
- Allocation of home office costs or corporate costs

## Auditor View of Documentation

**Documentation created when the cost is incurred (“contemporaneous”) carries greater weight than anything you create a year later to support the cost.**





# Are the following costs adequately documented?

Travel expense report with no indication of trip agenda, but charged to govt contract?  
What if commercial contract?

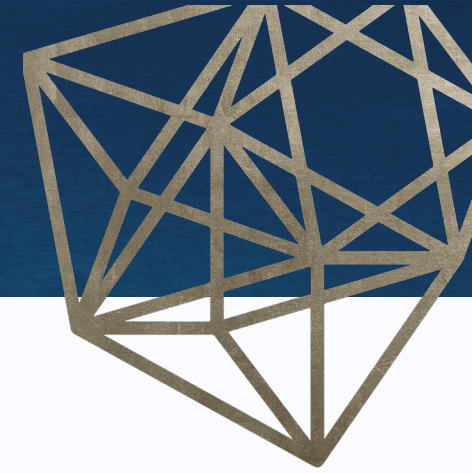
Sole-source subcontract award for \$20 million with justification write up that says "sole-source award made pursuant to company policy"

Attorney invoices for \$30K, with memo entry that says "for really good services rendered"

Exec compensation upward adjustment of 50% in one year, with a market study detailing 400 companies of same type, showing exec market salaries comparable to company amounts after upward adjustment

"Business lunch" with receipt for \$300; attendees, all employees, listed on attached memo of meeting identifying topics discussed





# FAR Part 31 Cost Principles

Review of Selected Costs  
FAR 31.205



# Straight Forward – For the Most Part



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31.205-3 **Bad debts** are **unallowable** including collection costs and legal costs

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31.205-4 **Bonding** costs are **allowable** provided they are reasonable

---

31.205-10 **Cost of money** is **allowable** if proposed and follows CAS 414

---

31.205-12 **Economic planning** is **allowable**

---

31.205-14 **Entertainment** costs (anything fun) are **unallowable**

---

31.205-20 **Interest** is **unallowable**

---

31.205-22 **Lobbying and political activity** costs are **unallowable**

---

31.205-23 **Losses on other contracts** are **unallowable**

---

31.205-25 **Manufacturing and production engineering** costs are **allowable**

---



# Straight Forward – For the Most Part



31.205-27 **Organization** (Merger & Acquisition) costs are **unallowable**, except to buy stock for Employee Compensation

31.205-29 **Plant protection** costs are **allowable**

31.205-34 **Recruitment** costs are **allowable**

31.205-36 **Rental** costs are **allowable**

31.205-38 **Selling** (Direct Technical) **allowable**

31.205-39 **Service and warranty** costs are **allowable**

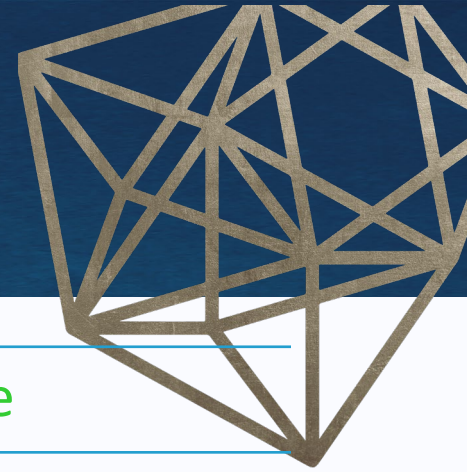
31.205-40 **Special tooling and special test equipment** costs are **allowable**

31.205-43 **Trade, business, technical and professional activity** costs are **allowable**

31.205-49 **Goodwill** is **unallowable**

31.205-51 Costs of **alcoholic beverages** are **unallowable**

# Complex – Require Case by Case Analysis



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31.205-1 **Public Relations and Advertising** **unallowable**, but some **allowable**

---

31.205-6 **Compensation** **allowable** and **unallowable** (Very Complex)

---

31.205-7 **Contingencies** **allowable** and **unallowable**

---

31.205-8 **Contributions or Donations** **unallowable**

---

31.205-11 **Depreciation** **allowable** and **unallowable**, all about the timing

---

31.205-13 **Employee morale** **allowable** and **unallowable** (Very Complex)

---

31.205-15 **Fines, Penalties, and Mischarging** costs are **unallowable**

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31.205-16 **Gains and Losses on Assets** may need adjustments

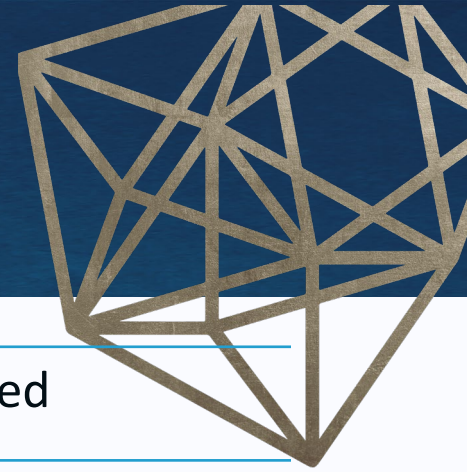
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31.205-17 **Idle Facilities** **unallowable**, unless driven by USG

---



# Complex – Require Case by Case Analysis



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31.205-18 **IR&D and B&P** allowable provided CEO certifies benefit to DoD, unless deferred

---

31.205-19 **Insurance** allowable and unallowable

---

31.205-21 **Labor Relations** allowable and unallowable

---

31.205-26 **Material** allowable (Intercompany at cost, unless commercial which can be at price)

---

31.205-28 **Other Business Expense** allowable, but limited to what is listed

---

31.205-30 **Patent Costs** allowable and unallowable

---

31.205-31 **Plant Reconversion Costs** allowable and unallowable

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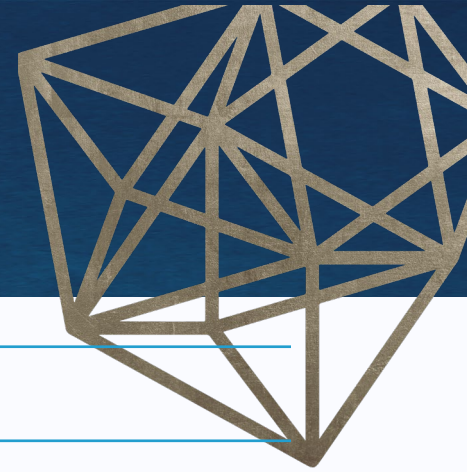
31.205-32 **Precontract Costs** allowable, provided otherwise allowable

---

31.205-33 **Professional-Consultant Costs** allowable, provided reasonable and supported

---

# Complex – Require Case by Case Analysis



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31.205-35 **Relocation** costs are **allowable** and **unallowable**

---

31.205-37 **Royalties** **allowable** unless issue with patent or USG has rights already

---

31.205-41 **Taxes** **allowable** and **unallowable**

---

31.205-42 **Termination** costs **allowable**, TCO is looking to be equitable

---

31.205-44 **Training and Education** Costs **allowable** and **unallowable**

---

31.205-48 **Research & Development** **allowable** contract costs

---

31.205-46 **Travel** costs **allowable** and **unallowable** (Very Complex)

---

31.205-47 **Legal** costs **allowable** and **unallowable**

---

31.205-52 **Business Combinations** will likely need adjustments

---

31.204(d) **The Catch All**, DCAA gets very creative with this

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# Travel Costs

## FAR 31.205-46

**Travel costs incurred by contractor personnel in connection with official company business are allowable subject to limitations**

- Cost principle covers:
  - Per diem (daily lodging and meals & incidentals)
  - Transportation expenses
  - Miscellaneous expenses

# Travel Costs

## FAR 31.205-46

**Per (a)(4): (a)(2) & (a)(3) do not incorporate government travel regulations in their entirety; only incorporates:**

- Definition of lodging, meals, and incidentals
- Maximum per diem rates—combination of hotel and meals/incidentals; one ceiling covering total
- Special or unusual situations when higher per diem amounts may be justified

**May choose to use other FTR/JTR travel guidelines as company policy or reasonableness benchmark**

**Note – Most hotels DO NOT extend Government employee rates to Contractor employees.**

# Travel Costs

## FAR 31.205-46

**Hotel, meals, and incidentals are allowable up to daily per diem ceilings for lodging and meals/incidentals specified in:**

- FTR - travel within contiguous 48 states
- JTR - travel in other states and U.S. possessions outside 48 states
- Dept. of State Standardized Regulations—overseas locations

**Government contractors limited to total per diem amounts per above regulations**



# Travel Costs

## FAR 31.205-46

### Hotel, and meals & incidentals (M&I) may be based on:

- Fixed per diem basis
- Actual expense basis
- Combination of actual and fixed; ex. Fixed M&I allowance & actual lodging

### If contractor chooses fixed per diem plan for reimbursement:

- Presumption that costs are reasonable as long as within appropriate travel regulation ceilings
- Thus, no detail receipts or other documentation required
- (a)(6) states that “maximum per diem would not constitute a reasonable daily charge when no lodging costs are incurred”

# Travel Costs

## FAR 31.205-46

### **(a)(3) Actual costs in excess of JTR/FTR limits may be authorized when all four of these conditions are met:**

- One of conditions specified in government travel regulations are met
- Authorized in writing by officer of company
- If repetitive, advance approval by CO is obtained
- Documentation to support actual costs (for each expenditure of \$75 or more)

***Increases are limited to those higher amounts authorized in JTR/FTR (lodging not available, special events, travel with dignitaries and maximum of 300% for lodging)***

# Travel Costs

## FAR 31.205-46(b)

**Airfare is restricted to lowest available fare to the contractor during normal business hours with exceptions (documented)**

- “Lowest” = absolute lowest at the time of booking which means restricted ticket with potential cancellation or change fees.
- Exceptions (documented & justified):
  - Circuitous routings
  - Unreasonable hours
  - Excessively prolong travel
  - Result in increased costs offsetting travel savings
  - Physical or medical needs of the traveler
  - Mission requirements
- DCAA expects a contractor to adequately plan travel to avoid change fees, cheaper 14-day advance tickets, etc. (reference DCAA policy 10-PAC-010 BUT NOT REGULATORY).



# Travel Costs

## FAR 31.205-46

### Regardless of reimbursement plan, contractor must document:

- Date and place of trip
- Purpose of trip
- Name of employee and relationship to contractor (i.e. if not an employee, what connection to the contractor).

### Other information:

- FTR allows lodging taxes to be reimbursed at actual costs—not part of lodging ceiling
- FTR allows laundry expense as separate reimbursable expense; not included in definition of “incidentals; thus, not subject to ceiling

# Travel Costs

## FAR 31.205-46

### Partial travel days or extended TDY:

- FAR states that downward adjustments from maximum per diem rates would normally be required if no lodging cost incurred and/or travel less than full day  
*Contractors must provide for reasonable reduction from max rates per DCAA CAM*
- FAR is silent on extended TDY, and JTR/FTR (180 Day Rule) DOES NOT APPLY; however, reasonableness may be the challenge

# Travel Costs - Myths

14-hour rule for international flights (allowing business class airfare)

Lowest available airfare documentation requires at least three comparable quotes (travel agencies, Expedia, etc.)

Lowest available airfare will never be first class airfare

Reimbursed travel can never be for a non-employee

Contractor employees are restricted to compact rental car

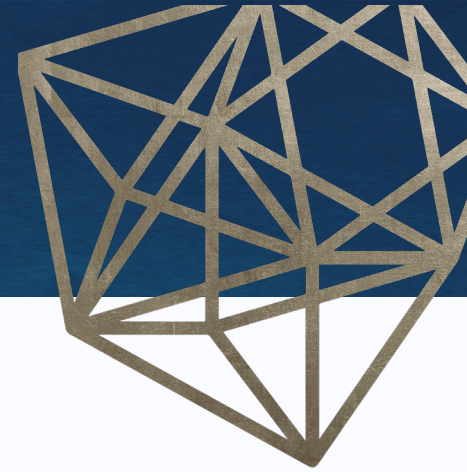
Baggage fees limited to only one bag unless second bag is carrying company documents, items, etc.

For international flights, lowest available carrier (domestic or foreign) applies (Fly American Act)

Flight change fees are unallowable unless approved in advance



# Public Relations and Advertising (FAR 31.205-1)

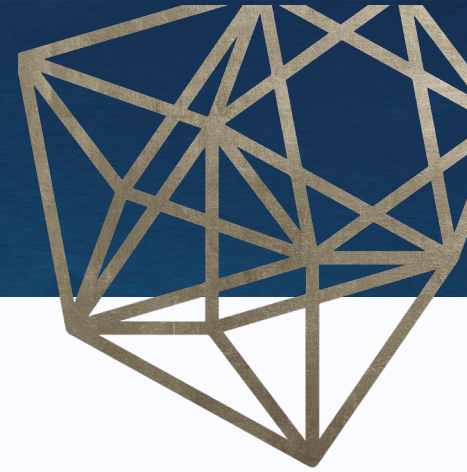


**Generally, public relations & advertising costs are unallowable if primary purpose is:**

- Promoting sale of products or services by stimulating interest in product, or calling favorable attention to company
- Enhancing company image to sell company's products



# Public Relations and Advertising (FAR 31.205-1)



## Allowable advertising:

- Requirement of contract—acquiring scarce items or disposal of scrap or surplus items
- Recruiting needed personnel (31.205-34)
- Promoting sales of products as exports normally sold to U.S. Government including Trade Shows—exclude gifts, souvenirs, entertainment, company image items



# Public Relations and Advertising (FAR 31.205-1)

## Unallowable public relations & advertising costs:

- Trade shows where emphasis is not on export sales of products normally sold to government
- Meetings/seminars where purpose is not stimulation of production or dissemination of technical information
- Promotional materials, brochures, souvenirs, meetings, wages, etc. whose purpose is to promote products or company image (except certain direct selling costs)
- Company celebrations & new product announcements
- Memberships in community & civic organizations
- **Remember to consider directly associated costs**



# Public Relations and Advertising FAR 31.205-1



## Allowable public relations:

- Required by contract
- Responding to inquiries on company policy, media liaison, communication with press or stockholders (also see 31.205-28)
- Disaster Relief, Hurricane Recovery, Blood Drive, Savings Bonds, etc.
- Plant tours and open houses (DCAA has been questioning costs of refreshments)
- Product roll-out or ship-christening ceremonies (if allowed by contract)



# FAR 31.205-38 Selling costs



- **Selling is the efforts to market the contractor's products or services, most of which are unallowable under other cost principles (e.g., advertising)**
- **The costs of any selling efforts other than those addressed in this cost principle are unallowable**
- **Selling activity includes:**
  - Advertising unallowable under FAR 31.205-1
  - Corporate image enhancement unallowable under FAR 31.205-1
  - Bid and proposal allowable under FAR 31.205-18
  - Market planning which is allowable – FAR 31.205-12 makes Long-range market planning allowable



# FAR 31.205-38 Selling costs



- **Direct selling is allowable**
  - Efforts to induce particular customers to purchase particular products or services of the contractor
  - Characterized by person-to-person contact and includes such efforts as familiarizing a potential customer with the contractor's products or services, conditions of sale, service capabilities, etc.
  - Including negotiation, liaison between customer and contractor personnel, technical and consulting efforts, individual demonstrations, and any other efforts having as their purpose the application or adaptation of the contractor's products or services for a particular customer's use
- **Sellers' or agents' compensation, fees, commissions, percentages, retainer or brokerage fees, whether or not contingent upon the award of contracts, are allowable only when paid to bona fide employees or established commercial or selling agencies (the concern is kick-backs)**





# Compensation for Personal Services FAR 31.205-6

- Includes wages, bonuses, pension, 401(k), fringe benefits, deferred compensation, director fees, ESOPs, living differentials, severance pay, etc.
- Must be for work performed in current year and not retroactive adjustments of prior years' salaries (unless it is backpay under a settlement)
- Reasonable in total for work performed; however, each element making up compensation should be reasonable
- Practices consistent with company policies

# Compensation for Personal Services FAR 31.205-6

**Most fundamental principle governing allowability of costs is reasonableness (31.205-6(b)); compared to other companies:**

- Similar number of employees/sales
- Similar type industry
- Performing similar non-Government work, comparable circumstances
- Same or similar geographic area

**Reasonableness also tested by:**

- Compliance with compensation policies or labor agreements
- No presumption of allowability (reasonableness) when contractor makes major changes and has not afforded the ACO the opportunity to review it

*31.001 defines labor market as a place where individuals exchange their labor for compensation: unintentionally implies “not paid to think”).*



# DCAA Perspective

- DCAA expects an adequate Accounting System to have a documented and logical process to support the reasonableness of the compensation of ALL employees.
- FAR 31.205-6(b)(2) – The compensation of each employee or job class of employees must be reasonable for the work performed based on factors the contracting officer (CO) considers relevant such as: compensation practices of other firms of the same size; in the same industry; in the same geographic area; and engaged in similar non-Government work under comparable circumstances.
- Again – DCAA has driven this down to a math exercise using market surveys of their choosing.
- Our Takeaway – Keep contemporaneous records of why you believe the compensation amounts are reasonable (e.g., hard to fill, high turnover, extensive training cost of new hires, etc.) – this means the CO should not simply accept the DCAA math.



# Compensation for Personal Services FAR 31.205-6

## **A higher DCAA audit risk is placed on contractor compensation for:**

- Closely-held or sole-owner companies or “perks” limited to executives of small company
- Any bonus or incentive compensation plan
- Employee stock-option plans (beware of compensation based upon changes in corporate stock prices)
- Compensation Cap - the FAR statutory limit applies to all employees

**Reasonableness is not limited to “testing” during incurred cost audits only; increased risk that auditor will test during proposal audit**

# Compensation Limits

**Applies to All Employees/Federal Agencies (but not to NFL)**

Cap Amount	Fiscal Year	For Costs Incurred
\$671,000	2025	1/1/2025 - 12/31/2025
\$646,000	2024	1/1/2024 - 12/31/2024
\$619,000	2023	1/1/2023 - 12/31/2023
\$589,000	2022	1/1/2022 - 12/31/2022
\$568,000	2021	1/1/2021 - 12/31/2021
\$555,000	2020	1/1/2020 - 12/31/2020
\$540,000	2019	1/1/2019 - 12/31/2019
\$525,000	2018	1/1/2018 - 12/31/2018

# Incentive Compensation (FAR 31.205-6 (f))

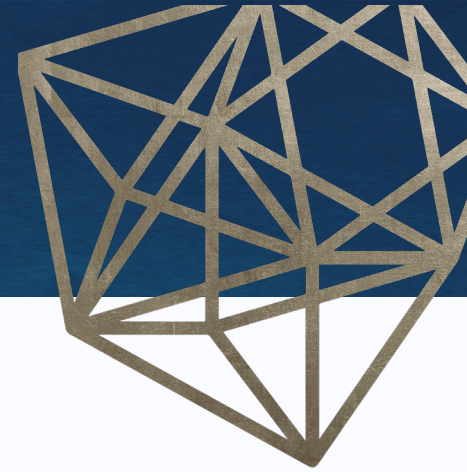
***For bonuses to be allowable, three fundamental principles apply:***

- Employee agreement exists before services are provided, or established plan is consistently followed as to imply in effect an agreement....
- Basis of award is supported
  - Reasonableness of amount
  - Justification for award
- Bonus relates to individual employee performance and/or overall company achievements

***Beware of government reaction when incentive compensation is expressly attributable to cost type contract(s)***



# Unique Compensation Requirements



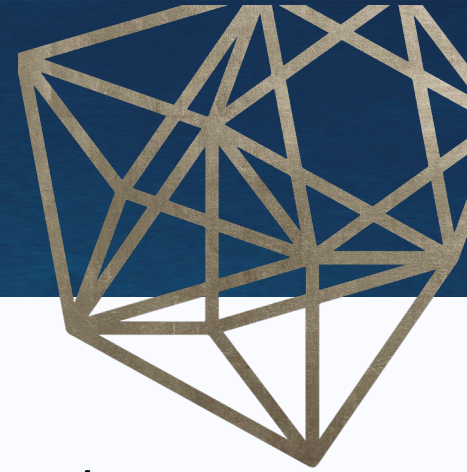
- **FAR 31.205-6(i) Compensation based on changes in Stock Price**
- **FAR 31.205-6(k) Deferred compensation**
- **FAR 31.205-6(l) Compensation incidental to business acquisitions**
- **FAR 31.205-6(q) Employee stock ownership plans (ESOP)**

# Unique Compensation Requirements



- **FAR 31.205-6(i) Compensation based on changes in Stock Price**
  - Compensation based on changes in the prices of corporate securities or corporate security ownership, such as stock options, stock appreciation rights, phantom stock plans, and junior stock conversions
  - Any compensation which is calculated, or valued, based on changes in the price of corporate securities is unallowable
  - Any compensation represented by dividend payments or which is calculated based on dividend payments is unallowable
  - If a contractor pays an employee in lieu of the employee receiving or exercising a right, option, or benefit which would have been unallowable, such payments are also unallowable

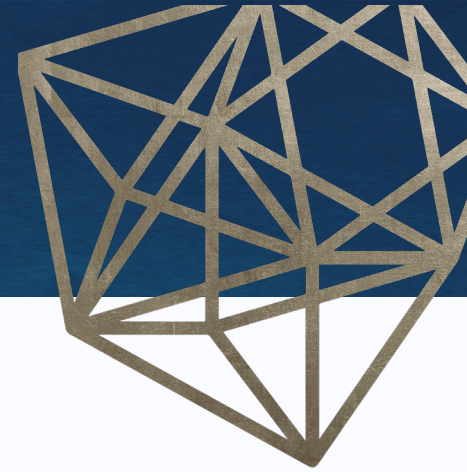
# Unique Compensation Requirements



- **FAR 31.205-6(k) Deferred compensation**
  - The costs shall be measured, assigned, and allocated in accordance with 48 CFR 9904.415, Accounting for the Cost of Deferred Compensation
  - The costs are unallowable if the awards are made in periods subsequent to the period when the work being remunerated was performed
  - The cost shall be assigned to the cost accounting period in which the contractor incurs an obligation to compensate the employee
  - If no obligation is incurred prior to payment, the cost shall be the amount paid and shall be assigned to the cost accounting period in which the payment is made
  - Deferred compensation cost is the present value of the future benefits to be paid



# Unique Compensation Requirements



- **FAR 31.205-6(I) Compensation incidental to business acquisitions**
  - Payments to employees under agreements in excess of the contractor's normal severance pay practice are unallowable
  - Payments to employees under plans contingent upon the employee remaining with the contractor for a specified period of time are unallowable

# Unique Compensation Requirements



- **FAR 31.205-6(q) Employee stock ownership plans (ESOP)\***
  - The costs shall be measured, assigned, and allocated in accordance with 48 CFR 9904.415, Accounting for the Cost of Deferred Compensation
  - For an ESOP, the deferred compensation cost shall be the amount contributed to the trust
  - The CAS 415 measured costs is then limited:
    - The deductibility limits of the Internal Revenue Code for that year
    - When in the form of stock, the value of the stock is limited to the fair market value of the stock on the date that title is transferred to the trust
    - When in the form of cash - stock purchases by the trust in excess of fair market value are unallowable
    - When the fair market value of stock is not readily determinable, the valuation will be made on a case-by-case basis taking into consideration the guidelines for valuation used by the IRS

**\*If considering an ESOP, seek professional advice**

# Contributions or Donations FAR 31.205-8

**Contributions or donation of  
cash, property, or services are  
unallowable**

## **Exception:**

- FAR 31.205-1(e)(3) allows costs for participation in community service activities
- United Way, Food Bank, Red Cross, other broad-based organizations
- Costs allowed for these activities should not include donations of cash or property, but may include employee time for participation



# Entertainment FAR 31.205-14

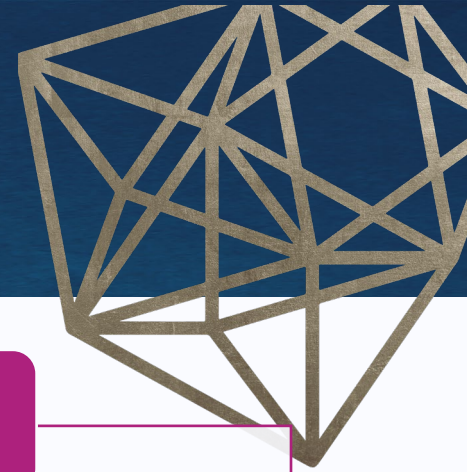


Any cost associated with “having fun” on or off the job is unallowable, regardless of its consequences (increased productivity, enhancement of loyalty, stimulation of interest in job, etc.)

Costs specifically unallowable under -14 are not allowable under any other cost principle (routinely used by auditors to challenge cost allowability)

Government does not believe in fun on the job

# Entertainment FAR 31.205-14



Regardless of purpose, cost for any amusement, diversion, social or recreational activity is considered unallowable.

## Examples:

- Memberships in social, dining, or country clubs
- Gifts/sporting event tickets to clients or employees (unless performance related)
- Dinners or other after-hours events (unless solely business related & well documented)
- “Business Meetings” where spouses or guests are present
- Alcoholic beverages, music (band), organ grinder, magician
- Business lunches are suspect, especially if frequent and expensive



# Employee Morale, Health, Welfare, Food Service, and Dormitory Costs and Credits FAR 31.205-13



## Any cost that has recreational or entertainment features is *unallowable*:

- Company picnics and holiday parties
- Tickets to sports or other entertainment events
- Memberships in social organizations (Country Club, Elks Lodge, etc.)
- Gifts to employees, unless connected to established awards policy based on performance
- Company sponsored trips and outings—even though purpose may be to improve employee morale, will likely be considered recreational



# Employee Morale, Health, Welfare, Food Service, and Dormitory Costs and Credits FAR 31.205-13



## Exception to unallowable employee morale recreational activities:

- Participation in company sponsored sports teams or employee organizations designed to improve company loyalty, teamwork, or physical fitness
- Includes softball teams, jogging teams, etc.
- Entertainment or recreational features included in these activities should be minimized or excluded if possible
- If golf team, avoid use of golf carts (OK; we made this up)

# Employee Morale, Health, Welfare, Food Service, and Dormitory Costs and Credits FAR 31.205-13



## Other allowable employee welfare and morale costs:

- Wellness or fitness centers
- Counseling or health advisory services
- Vending machines
- Cafeterias or lunch wagons
- Dormitory services (reasonable in the circumstances such as remote workplace)
- House publications—company newsletters, announcements, human resources notifications, etc.

# Employee Morale, Health, Welfare, Food Service, and Dormitory Costs and Credits FAR 31.205-13

## Employee morale/welfare gray areas – although not so gray anymore

- Special employee events—baby or bridal shower, etc.
- Company provided coffee, snacks, bottled water, soft-drinks, cigars
- In-house holiday events (almost always challenged)
- Secretary week luncheon
- Awards banquets or dinners (performance recognition) especially when coincidental to holidays



# Organization Costs FAR 31.205-27

## Unallowable Costs:

- Planning, executing organization or reorganization of corporate structure:
  - Mergers and acquisitions
  - Resisting or plans to resist reorganization
  - Change in controlling interest or ownership
  - Raising capital (long-term debt and equity but not revolving credit)
  - Costs include incorporation fees, legal, accounting, broker, consultant, investment counselors; **whether or not employees**

## Allowable Costs:

- Acquiring stock for executive bonuses, employee savings plans and ESOP's

# Organization Costs FAR 31.205-27

## Organization costs do not include activities for:

- Market planning/business development
- Internal restructuring of departments or change in management
- Issuing stock to employees as part of compensation
- Internal or external evaluations as to net worth of company

## If sale/merger of organization is contemplated

- Company should recognize when to start capturing costs for unallowable activities:
  - When does “planning” for the future become an unallowable organizational cost?
  - Any planning related to a potential future merger or acquisition is Unallowable per Federal Court of Appeals – Raytheon Case 2023

# FAR 31.205-12 Economic planning costs



- **Economic planning costs are allowable** – These costs are the costs of general long-range management planning that is concerned with the future overall development of the contractor's business and that may take into account the eventual possibility of economic dislocations or fundamental alterations in those markets in which the contractor currently does business
- **Economic planning costs do not include:**
  - Unallowable organization or reorganization (e.g., mergers and acquisitions) costs – FAR 31.205-27
  - Allowable market planning costs other than economic planning costs – FAR 31.205-38

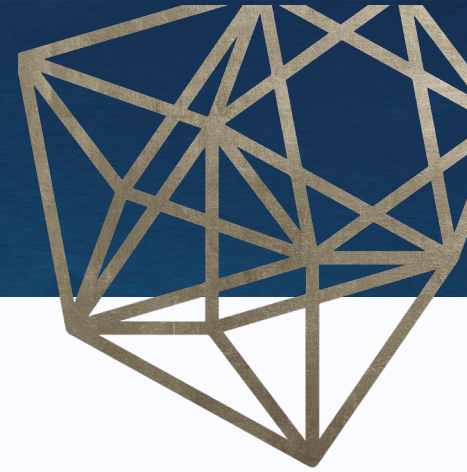


# Raytheon Company and Raytheon Missile Systems, 21-1 BCA ¶37,796, February 1, 2021



- DCMA found that Raytheon charged the government for expressly unallowable costs related to acquisition and divestiture (“A&D”) labor and salary costs in violation of FAR 31.205-27, Organization Costs (i.e., not long-term economic planning costs)
- Raytheon contended that government did not meet its burden of proof
- Raytheon stated that its policies adequately addressed the relationship among FAR 31.205-12, FAR 31.205-27 and FAR 31.205-38(b)(4) and that all planning costs are not unallowable
- **Armed Services Board of Contract Appeals (“ASBCA”) concluded the following:**
  - DCMA did not meet its burden of proof that Raytheon violated CAS 405
  - “Raytheon’s ‘bright-line’ policy represents a reasonable reading of the FAR provisions governing organization, economic planning, market planning, and selling costs...”
  - Raytheon’s policy was acceptable – unallowable acquisition costs commence with the submission of an indicative offer
  - Raytheon’s method of removing unallowable lobbying costs was proper based on its disclosed practice

# Secretary of Defense v. Raytheon Company, CAFC No. 21-2304, January 3, 2023



- **Federal Circuit overruled the ASBCA**
- **Company policy clarifying difference between allowable economic planning costs and unallowable organization costs was not consistent with the FAR cost principles resulting in expressly unallowable being claimed**
- **Remanded to the ASBCA to determine the amount of expressly unallowable costs – no accounting records showing how many unallowable organization hours**

# FAR 31.205-28 Other business expenses

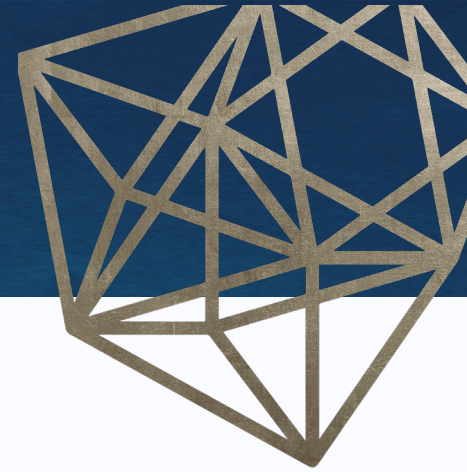


- **The following costs are allowable:**
  - Registry and transfer charges resulting from changes in ownership of securities issued by the contractor
  - Cost of shareholders' meetings
  - Normal proxy solicitations
  - Preparing and publishing reports to shareholders
  - Preparing and submitting required reports and forms to taxing and other regulatory bodies
  - Incidental costs of directors' and committee meetings
  - Other similar costs

*... provided the cost is reasonable... Board of Directors meeting in Aruba “might be” an issue.*



# Professional and Consultant Costs (FAR 31.205-33)



## Specific Documentation Requirements (FAR 31.205-33(f))

1

Agreement details including scope of work to be performed, compensation rates, nature and amount of other expenses

2

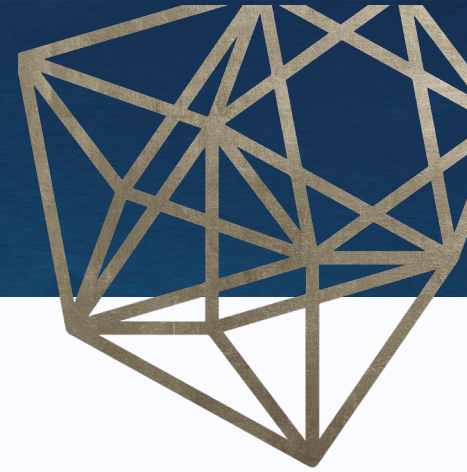
Invoices that sufficiently describe services performed and time expended

3

Consultant's work products such as trip reports indicating persons visited, discussions, meeting minutes and collateral reports

**Allowability requires “3 for 3”; no partial credit**

# Professional and Consultant Costs (FAR 31.205-33)



## **Allowability factors specified include:**

- Is the consultant indeed a qualified specialist
- Need for the service given contractor's service specialty
- Arm's length bargaining
- Costs not contingent upon recovery from the Government
- Customary fees charged for service in non-government marketplace
- Impact of services on government business
- Whether service can be performed internally
- Type of services performed
  - Improper influence of proposals/solicitations
  - Improper use of information or data protected by law

# Professional and Consultant Costs (FAR 31.205-33)



## **Retainer agreements have additional allowability criteria 31.205-33(e):**

- Evidence that services are necessary and customary
- Level of past services justifies amount of retainer fees (if past services were provided)
- Retainer fee is reasonable when compared to maintaining an in-house capability
- Actual services performed are documented in accordance with paragraph (f)



# Trade, Business, Technical & Professional Costs FAR 31.205-43

## Allowable costs:

- **Membership dues for technical, business, professional, and trade organizations**
- **Subscriptions to technical and trade journals, magazines, newsletters**
- **Costs for meetings or seminars when purpose is for:**
  - Dissemination of business/technical information
  - Stimulation of production
  - Improved productivity

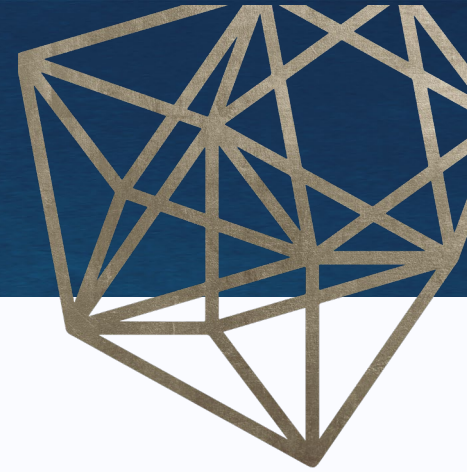
# Trade, Business, Technical & Professional Costs FAR 31.205-43

## Allowable meeting costs may include:

- Organizing, setting up, sponsoring
- Rental of facility
- Travel costs of participants, including non-employees who are essential to the meeting
- Should be documented as to attendees, purpose, etc.
- Business lunches: In-house working lunches are OK, however business lunches or dinners should be documented as to attendees, purpose of meeting, restaurant cost, meeting outcome – DCAA likes to question (in part because they can't be reimbursed for working lunch)

Caution: Some Civilian Agencies require pre-approval or do not allow meals for business lunches unless the employees are in travel status

# Unallowable Costs Due to Related Party Transactions



- **FAR 31.205-11 Depreciation**
- **FAR 31.205-18 Independent research and development and bid and proposal costs**
- **FAR 31.205-19 Insurance and indemnification**
- **FAR 31.205-26 Material costs**
- **FAR 31.205-36 Rental costs**



# FAR 31.205-11 Depreciation



- **Depreciation is an allowable cost, subject to the following limitations:**
  - If you have any full CAS covered contracts, you must comply with CAS 404 and 409
  - If you do not have full CAS covered contracts, allowable depreciation shall not exceed the amount used for financial accounting purposes
  - You cannot charge depreciation for property acquired from the Government at no cost
  - A related party can charge a price rather than depreciation cost provided the requirements of FAR 31.205-26 are met
  - No cost is allowed on property fully depreciated by the contractor or by any division, subsidiary, or affiliate of the contractor under common control – a reasonable usage rate is possible
  - Depreciation from a stepped-up basis because of a business combination is unallowable
  - Amortization cost of capital leases are allowable
  - Lease cost under a sale and lease back agreement are limited to the depreciation amount had the sale lease back not taken place

# FAR 31.205-18 Independent research and development and bid and proposal costs



- **Incorporates CAS 420 in its entirety – except when the contractor only has non-CAS and/or modified CAS covered contracts, then the following do not apply:**
    - 420-50(e)(2) allocation of IR&D and B&P costs at Home Office
    - 420-50(f)(2) allocation of IR&D and B&P costs at a Business Unit
- This allows for the allocation of the IR&D/B&P costs using the G&A base of the business unit, unless a project benefits multiple business units
- **IR&D and B&P costs are allowable as indirect expenses provided, they are allocable and reasonable**

# FAR 31.205-18 Independent research and development and bid and proposal costs



- **Deferred IR&D costs are unallowable, except when a contractor has developed a specific product at its own risk:**
  - The IR&D costs applicable to the product can be identified
  - The proration of such costs to sales of the product is reasonable
  - The contractor had no Government business during the time that the costs were incurred or did not allocate IR&D costs to Government contracts except to prorate the cost of developing a specific product to the sales of that product and
  - No costs of current IR&D programs are allocated to Government work except to prorate the costs of developing a specific product to the sales of that product
- **When deferred costs are recognized, the contract (except firm-fixed-price and fixed-price with economic price adjustment) will include a specific provision setting forth the amount of deferred IR&D costs that are allocable to the contract**



# FAR 31.205-18 Independent research and development and bid and proposal costs

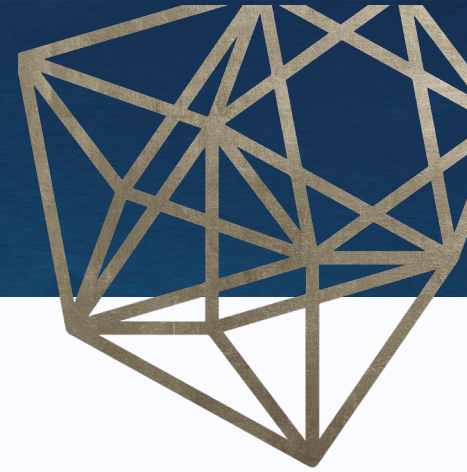


## ■ **Cooperative arrangements\***

- IR&D costs may be incurred by contractors working jointly with the Government pursuant to a cooperative arrangement
- IR&D costs also may include costs contributed by contractors in performing cooperative research and development agreements, or similar arrangements
- IR&D costs incurred by a contractor pursuant to cooperative arrangements should be considered as allowable IR&D costs if the work performed would have been allowed as IR&D had there been no cooperative arrangement
- Costs incurred in preparing, submitting, and supporting offers on potential cooperative arrangements are allowable to the extent they are allocable, reasonable, and not otherwise unallowable

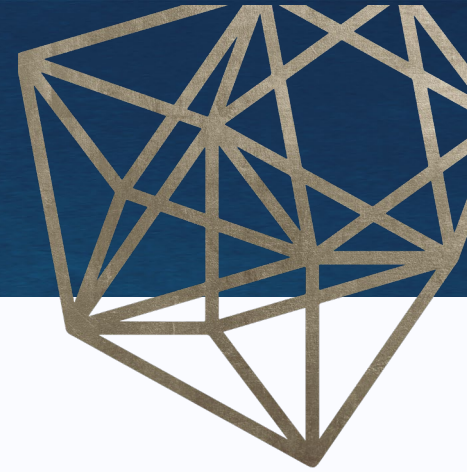
**\*If considering a cooperative arrangement, seek professional advice.**

# FAR 31.205-18 Independent research and development and bid and proposal costs



- **CAS 420 basic requirements:**
  - You need to set up projects for most IR&D and B&P efforts
  - IR&D and B&P projects are allocated all costs, except G&A
  - IR&D and B&P projects accumulated at a home office, or another business unit, are allocated to the benefiting business units on beneficial or causal basis
- **It is all about tracking cost to projects (i.e., direct and indirect) – these projects are treated like a contract in the accounting system until you are about to apply G&A – then cost moves from the base to the pool for G&A**
- **Your indirect (OH or G&A) staff do not need to charge the B&P project just the staff that normally charges direct to contracts**

# Unallowable Costs Due to Related Party Transactions



- **FAR 31.205-18 Independent research and development and bid and proposal costs**
  - IR&D and B&P projects need to be reviewed as to the benefiting segments (i.e., all divisions, subsidiaries, and affiliates of the contractor under common control need to be considered)



# FAR 31.205-19 Insurance and indemnification



- Insurance can be purchased or self-insurance
- Coverage can address:
  - A specific contract requirement
  - Required in the normal course of business
- **The Government considers insurance provided by captive insurers (insurers owned by or under control of the contractor) as self-insurance (See Related Party Slides above)**

*NOTE – This is a complex cost principle, and we are going over the basic requirements only*

# FAR 31.205-19 Insurance and indemnification



- Cost must be measured, assigned, and allocated based on CAS 416
- Must comply with FAR part 28 approval requirements – approval does not mean the cost is allowable
- If purchased insurance is available any self-insurance cost is limited to the lesser of self-insurance amount or market rates
- Actual losses are unallowable except for any deductible or if specifically stated in the contract
- Insurance on the lives of officers, partners, proprietors, or employees are allowable only to the extent that the insurance represents additional compensation

# FAR 31.205-19 Insurance and indemnification



- Insurance to protect the contractor against its own defects in materials and workmanship is unallowable. However, insurance to cover fortuitous or casualty losses resulting from defects in materials or workmanship are allowable as a normal business expense
- Retroactive or backdated insurance policies are unallowable
- Late charges are unallowable



# FAR 31.205-26 Material



- Material costs can include transportation, insurance, etc.
- When estimating material, reasonable amounts for scrap, overruns, spoilage, rework, etc. can be included
- Material needs to be adjusted for income and other credits (e.g., discounts, refunds, rebates, allowances – credits for scrap, salvage, and returned to vendors); such credits can be direct or indirect
- Reasonable inventory adjustments are allowable
- Direct material should be supported by a requisition and purchase order
- Material charged to a contract from contractor inventory must use a GAAP inventory costing method (e.g., LIFO, FIFO, etc.)

# FAR 31.205-26 Material



- **Normally, materials, supplies and services sold or transferred between any divisions, subdivisions, subsidiaries, or affiliates of the contractor under a common control is based on the cost incurred by the transferring party**
- **Transfer can be at price, when:**
  - The transferring party has an established practice (i.e., written policy) to transfer at price for commercial work to any division, subsidiary or affiliate of the contractor under a common control
  - The item being transferred qualifies for an exception under FAR 15.403-1(b) and
  - The contracting officer has not determined the price to be unreasonable
- **When a commercial product or commercial service is sold or transferred at a price, the contractor must adjust:**
  - The price for quantities and
  - The actual cost of any modifications

*Your financial accounting must match your cost accounting treatment.*

# FAR 31.205-36 Rental costs

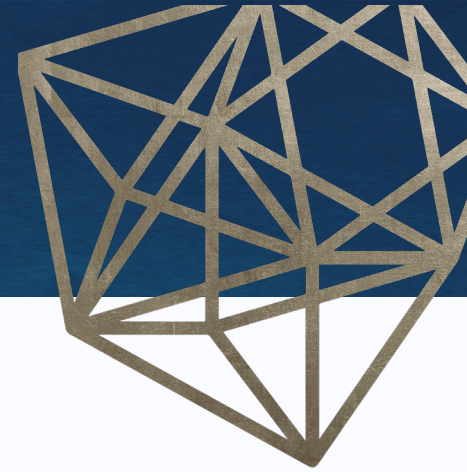


- Applies to renting and operating leases of real and personal property
- Rental and operating lease cost that are reasonable based on local market conditions are allowable
- Costs of a sale and leaseback are limited to the amount the contractor would be allowed had it retained title – Sale leaseback is a financial transaction to raise capital
- Rental/lease cost between related parties is limited to cost of ownership unless the related party is in the business of renting/leasing personal property – See next slide on related parties

Note: If renting on behalf of a specific contract, do not enter into a rental agreement beyond the period of performance of the contract.



# Unallowable Costs Due to Related Party Transactions



- **FAR 31.205-36 Rental costs**

- Rent/lease of property between any divisions, subsidiaries, or organizations under common control, are limited to the normal costs of ownership, such as depreciation, taxes, insurance, facilities capital cost of money, and maintenance (excluding interest or other unallowable costs pursuant to part 31)
- No part of such costs shall duplicate any other allowed cost already being paid by the renter/lessees
- Rental cost of personal property leased from any division, subsidiary, or affiliate of the contractor under common control, that has an established practice of leasing the same or similar property to unaffiliated lessees shall be allowed based on market pricing
- Use of a fictitious affiliate = fraud/false claims act violation (uncovered more than once in DCAA audits)

# FAR 31.205-7 Contingencies



- **“Contingency,” means a possible future event or condition arising from presently known or unknown causes, the outcome of which is indeterminable at the present time**
- **Costs for contingencies are generally unallowable for historical costing purposes (i.e., you cannot include a cost that may be incurred in your claims and billings)**
- **However, in the case of a termination, a contingency factor may be recognized to deal with minor unsettled costs to facilitate settlement**
- **Contingencies can be included estimates of future costs**
  - Estimates for events/costs that are likely to happen such as scrap, rework, returns, etc. are acceptable in proposals
  - Estimates for events/costs for which the incurrence is questionable, the estimates needs to be present in the proposal so the Government can develop contract terms to protect both parties

# Fines, Penalties, and Mischarging Costs FAR 31.205-15

## **Unallowable in connection with:**

- Violation of Federal, State, local or foreign laws
- Failure to comply with contract terms
- Interest on claimed unallowable costs or price reductions due to defective pricing
- Failure to properly charge/bill contract costs when caused by records alteration or destruction, false or improper charges

**Exception: Incurred to comply with contract terms or conditions (e.g., to challenge state law assessing inventory tax on CPFF contract direct materials)**



# FAR 31.205-17 Idle facilities and idle capacity costs



- **Costs of idle facilities or idle capacity means costs such as maintenance, repair, housing, rent, and other related costs; e.g., property taxes, insurance, and depreciation**
- **Idle capacity means the unused capacity of partially used facilities – the difference between that which a facility could achieve under 100 percent operating time on a one-shift basis, less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays, and the extent to which the facility was actually used, a multiple-shift basis may be used if it can be shown that this the normal practice**
- **Idle facilities means completely unused facilities that are excess to the contractor's current needs**

# FAR 31.205-17 Idle facilities and idle capacity costs



- **Idle facilities are unallowable unless:**
  - Are necessary to meet fluctuations in workload; or
  - Were necessary and are now idle because of changes in requirements, production economies, reorganization, termination, or other causes which could not have been reasonably foreseen
- **You have a reasonable period, ordinarily not to exceed 1 year, depending upon the initiative taken to use, lease, or dispose of the idle facilities**
- **Costs of idle capacity can be included in your overhead rates**
- **Cost of any widespread idle capacity can be found to be unallowable idle facilities**
- **If the Government agrees to pay for idle facilities or capacity to support defense mobilization a separate agreement should be put in place**

# FAR 31.205-20 Interest and other financial costs



- **Interest no matter how calculated, determined, or applied is unallowable**
- **Cost of preparing a prospectus, and the costs of preparing and issuing stock rights are unallowable**
- **Exceptions:**
  - Any interest as a result of direction by a contracting officer (e.g., not paying State Taxes)
  - Interest included in payments to “leveraged” ESOP Trust - ASBCA, 00-1 BCA ¶30,864 Ball Corporation (Apr. 3, 2000)



# FAR 31.205-22 Lobbying and political activity costs



- **Costs associated with the following activities are unallowable:**
  - Influencing directly or indirectly any Federal, State, or local election, referendum, initiative, or similar procedure, through in kind or cash contributions, endorsements, publicity, or similar activities
  - Legislative liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effect of legislation, when such activities are carried on in support of or in knowing preparation for an effort to engage in influencing
  - Attempting to improperly influence, either directly or indirectly, an employee or officer of the Executive branch of the Federal Government to give consideration to or act regarding a regulatory or contract matter

*Associated costs include salary, benefits, travel, facilities, etc.*

# FAR 31.205-22 Lobbying and political activity costs



## ■ Allowable activities include:

- Providing a technical and factual presentation directly related to a contract through hearing testimony, statements or letters to the Congress or a state legislature, or subdivision, member, or cognizant staff member, when requested in writing; provided such information is readily obtainable and can be readily put in deliverable form (i.e., you were requested, and the data is already available)
- Any lobbying to influence state or local legislation to directly reduce contract cost, or to avoid material impairment of the contractor's authority to perform the contract (e.g., application of state taxes to Federal Government contract costs)
- Any activity specifically authorized by statute to be undertaken with funds from the contract (Don't hold your breath trying to find this in any contract)

# FAR 31.205-22 Lobbying and political activity costs



- When submitting your indirect cost rate proposal (FAR 52.216-7), total lobbying costs must be separately identified and treated as unallowable
- You must maintain adequate documentation to demonstrate that you have complied with this cost principle including internal interpretations of what is or isn't "lobbying"
- If subject to a DCAA audit, note DCAA use of "Opensecrets.org" to identify lobbying and political contributions.

*NOTE – It is likely that the employees involved in these activities are indirect – so, total time accounting for indirect employees is recommended, if not essential, if dealing with DCAA*

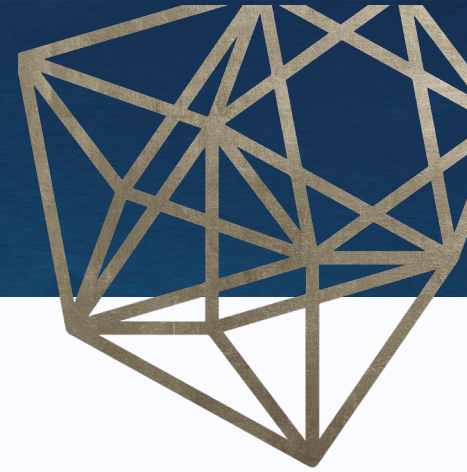


# FAR 31.205-23 Losses on other contracts



- Any cost greater than the amount you have been able to bill on a Government or Commercial contract is unallowable cost on any other contract
- By implication this includes your share on any cost-sharing contracts (this will be expressly stated in that contract)
- Cooperative arrangements are unique cost-sharing arrangements where IR&D costs can be used – but subject to the express wording of the arrangement
- Costs incurred in excess of the limitation of funds (cost-type contract) maybe considered IR&D

# FAR 31.205-30 Patent costs



- **Patent cost required by a contract are allowable, including:**
  - Preparing invention disclosures, reports, and other documents
  - Searching the art to the extent necessary to make the invention disclosures
  - Filing and prosecution of a United States patent application where title or royalty-free license is to be conveyed to the Government
- **General counseling services relating to patent matters, such as advice on patent laws, regulations, clauses, and employee agreements, are allowable provided FAR 31.205-33 (Professional Consulting) requirements are met**
- **Other than those for general counseling services, patent costs not required by the contract are unallowable – but royalties under FAR 31.205-37 (Royalties) may be allowable**

# FAR 31.205-31 Plant reconversion costs



- Plant reconversion costs are incurred to restore or rehabilitate the contractor's facilities to approximately the same condition existing immediately before the start of the Government contract, except for normal fair wear and tear
- Reconversion costs are unallowable except for the cost of removing Government property and the restoration or rehabilitation costs caused by such removal
- However, in special circumstances where equity so dictates, additional costs may be allowed to the extent agreed upon before costs are incurred – Need to avoid duplication through allowance as contingencies, additional profit or fee, or in other contracts

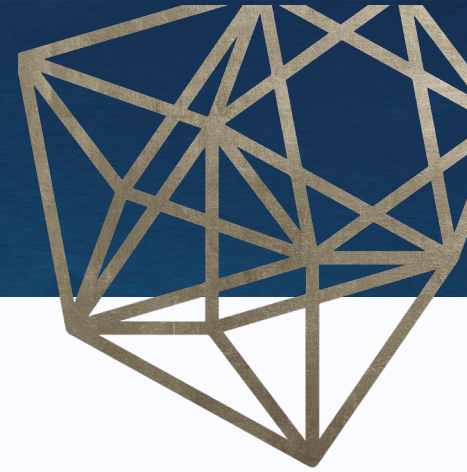


# FAR 31.205-32 Precontract costs



- Precontract costs means costs incurred before the effective date of the contract directly pursuant to the negotiation and in anticipation of the contract award when such incurrence is necessary to comply with the proposed contract delivery schedule
- These costs are allowable to the extent that they would have been allowable if incurred after the date of the contract
- Good Practice is to seek and advance agreement with CO

# FAR 31.205-34 Recruitment costs



- **Allowable recruitment costs include:**
  - Help-wanted advertising
  - Operating an employment office
  - Aptitude and educational testing
  - Travel costs of recruiters and applicants
  - Market rates for employment agencies
- **Help-wanted advertising is unallowable if:**
  - Description of specific position is not included
  - Includes material that is not relevant for recruitment purposes, such as extensive illustrations or descriptions of the company's products or capabilities

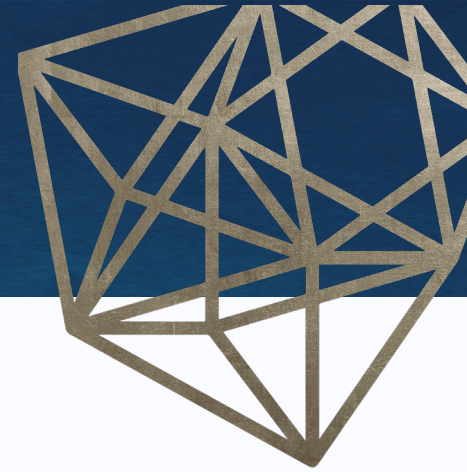
# FAR 31.205-35 Relocation costs



- **Relocation costs for an existing employee or recruit are allowable direct or indirect cost with the following limitations:**
  - Relocation must be for more than a year
  - Travel costs meet the FAR 31.205-46 requirements
  - Reasonable advance trips to find a new home and temporary lodging
  - Closing costs and continuing costs of ownership of current residence, not to exceed 14% of the sales price
  - Reasonable miscellaneous costs (e.g., disconnecting and connecting household appliances; automobile registration; driver's license and use taxes; etc.)
  - Closing cost on new home, when a home sold at previous location, not to exceed 5% of new home's price

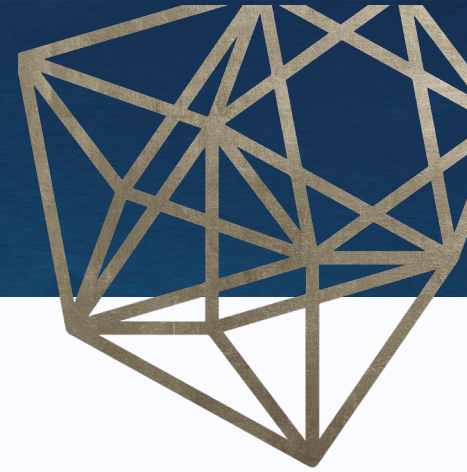


# FAR 31.205-35 Relocation costs



- **Relocation costs for an existing employee or recruit are allowable with the following limitations: (continued)**
  - Mortgage interest differential payments, when old and new home involved, limited to the rate difference times the old mortgage balance at time of sale – if lump-sum, requires payback if employee does not stay 3 years
  - Rental differential payments where employee retains ownership of a home and rents at the new location – limited to the actual rental costs for the new home, less the fair market rent for the vacated home for 3 years
  - Reasonable costs of breaking a lease
  - Cost of increased taxes due to allowable reimbursed relocation costs
  - Reasonable costs for spouse employment assistance

# FAR 31.205-35 Relocation costs



- **Additional requirements:**
  - Move must be for the benefit of the employer
  - Contractor needs to have established policy or practice that is consistently followed and designed to motivate employees to relocate promptly and economically
  - Cost cannot be unallowable under any other cost principle
  - Total amount cannot exceed the employee's actual expenses
  - A lump-sum for miscellaneous cost can be used – limited to \$5,000

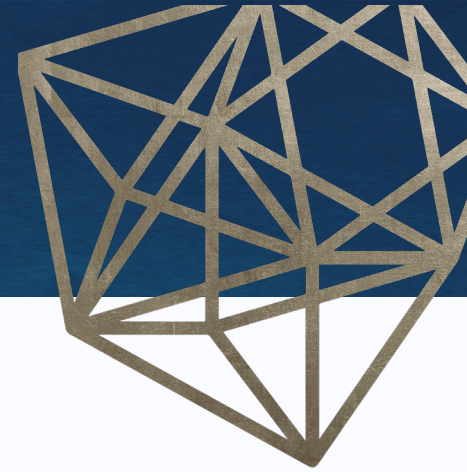
# FAR 31.205-35 Relocation costs



- **Reimbursement on a lump-sum basis is allowed for the following relocation costs when adequately supported by data on the individual elements (e.g., transportation, lodging, and meals) comprising the build-up of the lump-sum amount to be paid based on the circumstances of the particular employee's relocation:**
  - Costs of finding a new home
  - Costs of travel to the new location
  - Costs of temporary lodging
- **You cannot true-up to actuals**



# FAR 31.205-35 Relocation costs



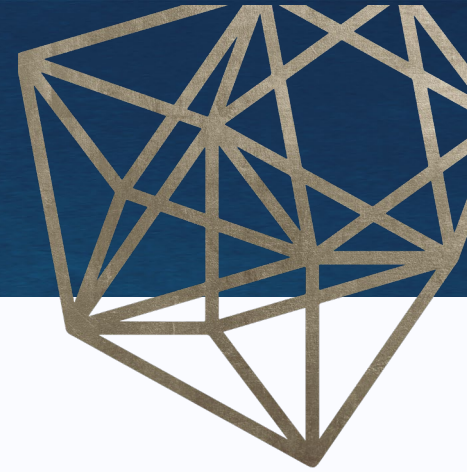
- **Unallowable costs:**
  - Loss on sale of a home
  - Costs incident to acquiring a home:
    - Brokers' fees and commissions
    - Litigation
    - Real and personal property insurance against damage or loss of property
    - Mortgage life insurance
    - Owner's title policy insurance when such insurance was not previously carried by the employee on the old residence – However, the cost of a mortgage title policy is allowable
    - Property taxes and operating or maintenance costs
  - Continuing mortgage principal payments on residence for sale
  - Costs to furnish to employees lower-than-market rate mortgage loans

# FAR 31.205-35 Relocation costs



- **If the employee resigns within 12 months for reasons within the employee's control, the contractor shall refund or credit the costs**
- **Relocation costs on specific contracts or long-term field projects are allowable if:**
  - Term of employment is 12 months or more
  - Employment agreement:
    - Specifically limits the duration of employment
    - Provides for return relocation to the employee's prior location, or other location of equal or lesser cost
  - All other FAR 31.205-35 are met

# FAR 31.205-35 Relocation costs



- **While the cost principle does not incorporate Federal Travel Regulations – Chapter 302, Relocation Allowances, many DCAA auditors use these allowances as a measure of reasonableness**



# FAR 31.205-41 Taxes



- **The following taxes are allowable:**
  - Federal, State, and local taxes, unless specifically unallowable, that are required to be and are paid or accrued
  - Any taxes, interest, and penalties incurred as a result of being directed by the contracting officer not to pay a tax
  - Environmental taxes – Superfund tax
- **The following taxes are unallowable:**
  - Federal income and excess profit taxes
  - Taxes because of financing, refinancing, refunding operations, or reorganizations
  - Taxes from which exemptions are available
  - Special assessments on land
  - Taxes on real or personal property not related to Government contracts
  - Taxes on qualified pension plans, welfare plans, deferred compensation plans, or other similar types of plans
  - Income tax accruals for differences between taxable income and pretax income
  - Taxes on group health plans

# FAR 31.205-41 Taxes



- Taxes on direct charged property should be charged direct
- Taxes incurred on property used in both Government and non-Government work shall be apportioned to all such work based upon the use of such property on the respective contracts
- Any taxes, interest, or penalties that were allowed as contract costs and are refunded to the contractor shall be credited or paid to the Government in the manner it directs

# FAR 31.205-44 Training and education costs



- Training and education must be related to the field in which the employee is working or may reasonably be expected to work to be allowable
- Educating employee dependents (primary and secondary level studies) when the employee is working in a foreign country where suitable public education is not available may be included in overseas differential pay
- Full-time graduate level education – Costs of tuition, fees, training materials and textbooks, subsistence, salary, and any other payments are unallowable, if the program exceeds two school years or the length of the degree program, whichever is less



# FAR 31.205-44 Training and education costs



- **The following costs are unallowable:**
  - Overtime compensation
  - Compensation to attend undergraduate classes
  - Grants and contributions to educational or training institutions
  - Contributions to college savings plans
  - Any cost related to a person that is not an employee

# FAR 31.205-47 Costs related to legal and other proceedings

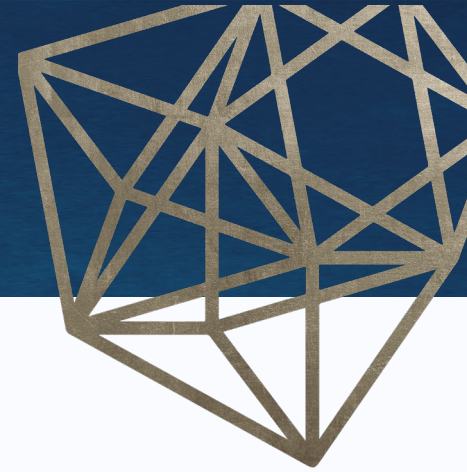


- Action brought against the contractor by any level of Government in which the contractor is found to be in the wrong OR could have been found liable (i.e. contractor agreed to a settlement by consent or compromise without a formal decision) are going to be unallowable
- Even when the contractor wins a legal action the allowable cost are limited to only 80%
- Contractors can settle cases that would cost too much to fight – But often challenged by DCAA auditors

***NOTE – This is a complex cost principle, however DCAA's guidance is useful in sorting out the complexities. See next slide.***

# DCAA Guidance

<http://www.dcaa.mil/Guidance/Selected-Area-of-Cost-Guidebook>





# FAR 31.205-37 Royalties and other costs for use of patents



- **Royalties necessary for a contract are allowable unless:**
  - The Government has a license or the right to a free use of the patent
  - The patent has been adjudicated to be invalid, or has been administratively determined to be invalid
  - The patent is considered to be unenforceable
  - The patent is expired
- **You need to document the reasonableness, when:**
  - Patent obtained from a related party
  - The owner of the patent knew it was needed for a Government contract
  - Patent obtained after the award of the contract
- **If the contract previously owned the patent, the royalties are limited to what the contract would have received had it retained title**

# FAR 31.205-40 Special tooling and special test equipment costs



- **Special test equipment** means either single or multipurpose integrated test units engineered, designed, fabricated, or modified to accomplish special purpose testing in performing a contract. It consists of items or assemblies of equipment including foundations and similar improvements necessary for installing special test equipment, and standard or general purpose items or components that are interconnected and interdependent so as to become a new functional entity for special testing purposes. Special test equipment does not include material, special tooling, real property, and equipment items used for general testing purposes or property that with relatively minor expense can be made suitable for general purpose use.
- **Special tooling** means jigs, dies, fixtures, molds, patterns, taps, gauges, and all components of these items including foundations and similar improvements necessary for installing special tooling, and which are of such a specialized nature that without substantial modification or alteration their use is limited to the development or production of particular supplies or parts thereof or to the performance of particular services. Special tooling does not include material, special test equipment, real property, equipment, machine tools, or similar capital items.

# FAR 31.205-40 Special tooling and special test equipment costs



- **Special tooling and special test equipment used in performing one or more Government contracts is allowable**
- **Direct cost of the specific Government contract or contracts for which acquired, except when:**
  - Acquired by the contractor before the contract
  - Contract specifically excludes – but can be indirect
- **The cost of adapting the equipment for use under the contract and the cost of returning them to their prior configuration are allowable**

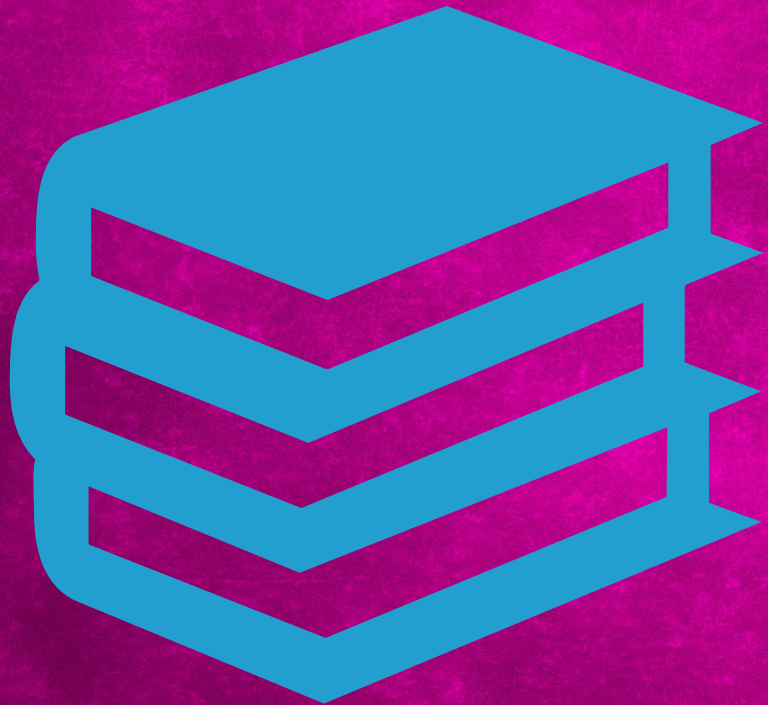


# Straight-Forward Unallowables



- **FAR 31.205-49 Goodwill – Goodwill, an intangible asset, resulting from purchase method for a business combination, any costs for amortization, expensing, write-off, or write-down of goodwill (however represented)**
- **FAR 31.205-51 Costs of alcoholic beverages**





# Helpful Resources and Information



# Government Contractor Web Resources

## **Redstone Government Consulting Information**

<http://www.redstonegci.com>

## **Government Travel Per Diem Information**

<http://www.gsa.gov/portal/category/21287>

## **Federal Acquisition Regulations & Proposed Rules**

<http://www.acquisition.gov/far/>

## **Defense Federal Acquisition Regulation Supplement (DFARS) and Procedures, Guidance, and Information (PGI)**

<http://www.acq.osd.mil/dpap/dars/dfarspgi/current/index.html>



# Government Contractor Web Resources

## **ASBCA Decisions**

<https://www.asbca.mil/Decisions/decisions2015.html>

## **Defense Contract Audit Agency**

[www.dcaa.mil](http://www.dcaa.mil)

## **GSA Government Standard Forms**

<http://www.gsa.gov/portal/forms/type/TOP>

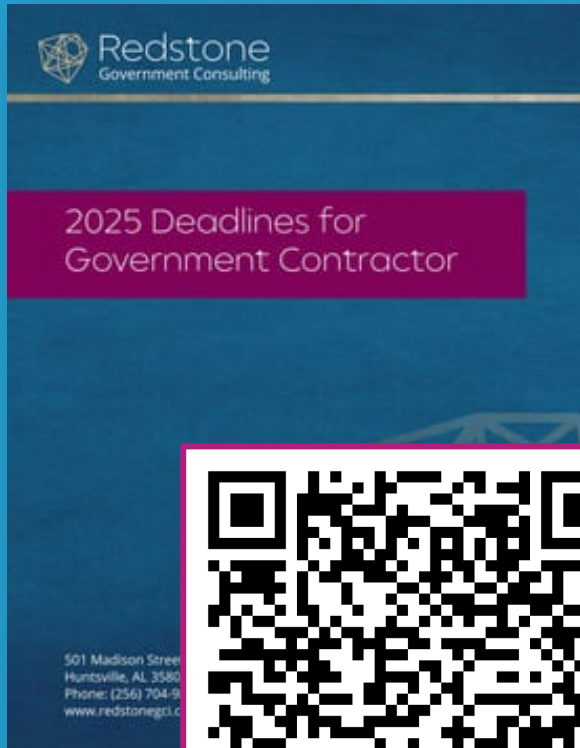
## **Defense Contract Management Agency (DCMA)**

<http://www.dcma.mil/>

# 2025 Critical Deadlines for Government Contractors

This guide provides you with all of the essential information and dates you need to know, including:

- Important deadlines for your internal departments
  - Accounting,
  - Human Resources,
  - Contracts & Subcontracts, and
  - Government Compliance
- Contract performance and delivery deadlines
- Deadlines for reporting and compliance requirements
- Deadlines for audits and reviews



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# Questions and Discussion

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