

DCAA Audit Policy Relative to the Revised Travel Cost Principle FAR 31.205-46 by Beason & Nalley, Inc

The travel cost principle (FAR 31.205-46) was amended (effective January 11, 2010) to limit the cost of air travel to the “lowest priced airfare available to the contractor,” with limited exceptions. The stated purpose of this ruling is to limit a contractor’s recovery of air travel costs for employees that are utilizing premium class airfare to the lowest airfare available to that particular contractor based on agreements the contractor has negotiated with the airline and/or with travel agencies.

Although the new wording intended to “clarify” the regulation, in our opinion it is more ambiguous than before and **those ambiguities have already been misinterpreted by DCAA** (Defense Contractor Audit Agency) in the context of its audit policy 10-PAC-010(R), dated March 22, 2010. **DCAA’s policy requires extensive documentation including that which supports non-premium fares which are greater than the absolute lowest “available” fare to a contractor** (or contractors in general). This audit policy has adverse implications for contractors who do not have negotiated agreements with specific airlines suggesting that reasonableness will be an issue. This poses serious concerns and certainly increases risk regarding DCAA auditors making subjective, judgmental decisions to question the allowability of air travel costs. Certainly from the contractor perspective, the revised travel cost principle accomplished nothing other than giving DCAA different avenues to question contractor costs.

In addition to the risk of air travel cost allowability being questioned, there is the imposing and administratively costly task of documenting the “lowest priced airfare available during normal business hours”. This will require (per DCAA) travel administrators to have documented airfare quotes for multiple airlines or from multiple travel agencies when booking air travel for employees, a difficult endeavor given the volatility and variability in the price of air travel between different airlines as well as from a single airline. As is self-evident to anyone who travels, airfares are not a standard price, locked in for a period of time but often vary in price over the course of a single business day. The implications, the revised rule coupled with DCAA audit policies will increase time and administration costs to document that airfare was the lowest available to the contractor

The amended rule clearly requires the use of non-refundable airline tickets (which are lower in price than refundable tickets); however, DCAA’s audit policy seems to be reasonable in stating that “auditors should not question costs in excess of nonrefundable tickets if contractor’s data shows increased costs result in comparison to refundable tickets”. **Unfortunately a closer reading unveils the risk to the contractor associated with the documentation issue** (i.e. *the contractor’s data must show*). Translated, a contractor’s data must clearly document refundable tickets were ultimately less expensive than nonrefundable which implicates a documented history showing additional costs from change fees and then DCAA coaxes its auditors to challenge this

scenario if it becomes repetitive which DCAA concludes is inadequate planning and unreasonable costs.

There are long-standing exceptions which still apply to the amended travel cost principle (FAR 31.205-46) and its allowable cost limited to the “lowest priced airfare available to the contractor,” including when “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.” In order for airfare in excess of the lowest available to be allowable these exceptions or limited circumstances must be adequately documented. However, there is no guarantee the contractor's documentation will be deemed adequate by a DCAA auditor, encouraged to challenge the “grey” areas and question excess cost based upon his/her interpretation.

The bottom line is that the ambiguous language used in the amended travel cost principle will cause additional headaches for government contractors; first the increased administrative time and cost and then the additional opportunities for the DCAA auditors to question the allowability or reasonableness of any air travel costs which exceeds the absolute lowest available. Government contractors will need to provide well documented airfare analysis when booking employee travel to protect themselves against overzealous DCAA auditors.