

**DCAA MEMORANDUM FOR REGIONAL DIRECTORS COVER SHEET**

AUDIT GUIDANCE/AUDIT MANAGEMENT GUIDANCE MEMORANDUM NO. 10-PAC-010(R)  
March 22, 2010

Date of MRD:

Subject of MRD: Audit Guidance on Revision to FAR 31.205-46(b) and (c) – Limiting Airfare to the Lowest Airfare Available to the Contractor

**Current Audit Guidance and/or Audit Management Guidance Affected:**

**CAM**

<b>Paragraph</b>	<b>Explanation of Effect on Current Version of CAM</b>
<u>7-1002</u>	As a result of FAR 31.205-46 revisions, CAM guidance will emphasize that the allowable baseline for airfare cost is the "lowest priced airfare available to the contractor." In addition, similar revisions will be made to the guidance on audits of Company owned/leased/operated aircraft and will be updated for the revision to the cost principle.
<u>7-1003</u>	

**AUDIT PROGRAMS**

<b>5 Digit Activity Code</b>	<b>Subactivity/Document Name</b>	<b>Step No.</b>	<b>Explanation of Effect on Current Audit Program</b>
<u>NONE</u>			

**SHELL AUDIT REPORTS**

<b>5 Digit Activity Code</b>	<b>Subactivity/Document Name</b>	<b>Sec./Par.</b>	<b>Explanation of Effect on Current Audit Report</b>
<u>NONE</u>			

**MEMORANDUMS FOR REGIONAL DIRECTORS**

<b>MRD No.</b>	<b>Date</b>	<b>Subject/Explanation of Change</b>
<u>07-PAC-039</u>	<u>11/30/2007</u>	<u>Audit Effectiveness Tools – Audit Guide and Case Study will be updated for revised rule on airfare.</u>

**INTERNAL CONTROL QUESTIONNAIRE/INTERNAL CONTROL MATRIX/INTERNAL CONTROL AUDIT PLANNING SUMMARY**

<b>ICQ/ICM/ICAPS</b>	<b>Section &amp; No.</b>	<b>State Control(s) Affected by the Change</b>
<u>NONE</u>		

**DCAA PAMPHLETS/REGULATIONS/INSTRUCTIONS**

<b>DCAAP/R/I/No.</b>	<b>Date</b>	<b>Page/Sec./Par.</b>	<b>Explanation of Effect</b>
<u>NONE</u>			

**DMIS USER GUIDE**

<b>DMIS User Guide</b>	<b>Explanation of Effect</b>
<u>NONE</u>	



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IN REPLY REFER TO

PAC 730.3.B.01/2010-03

March 22, 2010  
10-PAC-010(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA  
DIRECTOR, FIELD DETACHMENT, DCAA  
HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA

SUBJECT: Audit Guidance on Revision to FAR 31.205-46(b) and (c) – Limiting Airfare to the Lowest Airfare Available to the Contractor

**SUMMARY**

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 airfare available to the contractor.

A lined-in, lined-out version of the cost principle showing language before and after the revision is provided in the enclosure. Prior to the change, allowable airfare costs were limited to “the lowest customary standard, coach, or equivalent airfare.” After the change, allowable airfare costs are limited to “the lowest priced airfare available to the contractor.” Further, with respect to the cost of travel by contractor-owned, -leased, or -chartered aircraft, FAR 31.205-46(c)(2) was revised to replace the allowable baseline costs from the “standard” airfare described in paragraph (b) to the “allowable” airfare described in paragraph (b).

**GUIDANCE**

In the FR notice, the Defense Acquisition Council and the Civilian Agency Acquisition Council (“the Councils”) summarized the need for a revision, as follows:

The (airfare) limitation was being interpreted inconsistently, either as *lowest coach fare available to the contractor* or *lowest coach fare available to the general public*, and these inconsistent interpretations can lead to confusion regarding what costs are allowable. The Councils believe that the reasonable standard to apply in determining the allowability of airfares is the *lowest priced airfare available to the contractor*. It is not prudent to allow the costs of the lowest priced airfares available to the general public when contractors have obtained lower priced airfares as a result of direct negotiation. Furthermore, the Councils believe that the cost principle should be clarified to omit the term “standard” from the description of the classes of allowable airfares since that term does not describe actual classes of airline service. The Councils further believe that the terms “coach, or equivalent,” given the great variety of airfares often available, may result in cases where a “coach, or equivalent” fare is not the lowest airfare available to contractors, and should thus be omitted.  
[Underlines added]

Auditors should question airfare costs claimed in excess of the lowest airfare available to the contractor. Generally, this is based on airfares available to the contractor through direct negotiation with airlines or travel agents. For airfare costs incurred under contracts awarded prior to the January 11, 2010 effective date of the revised rule, the auditor should continue to question the airfare costs in excess of the

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lowest customary standard, coach, or equivalent airfare available to the contractor because it is not prudent to allow airfares available to the general public when lower airfares are available to contractors, as noted in the FR notice. (However, the lowest customary standard or coach fare did not include restricted or nonrefundable airfare.)

To comply with the revised rule, the contractor's policies and procedures should provide for advance planning of travel to assure that the lowest priced airfare available to the contractor for flights during normal business hours is documented and utilized as the baseline allowable airfare cost. To determine the lowest airfare available to the contractor for flights during normal business hours, the contractor must now consider nonrefundable airfares and lower airfares negotiated with airlines, travel service providers, credit card companies, etc. However, auditors should not question airfare costs claimed in excess of nonrefundable airfare available during normal business hours if the contractor's data show that its experience with cancelling nonrefundable tickets results in increased cost in comparison to the cost of refundable tickets. The contractor must utilize the lowest airfare so determined as the baseline allowable airfare cost unless substantiating documentation is maintained for one of the exceptions to the lowest priced airfare requirement in FAR 31.205-46(b).

Ordinarily, with adequate advance planning, documentation substantiating the lowest airfare available takes the form of quotations from competing airlines or travel service providers from which the lowest priced airfare can be selected, giving proper consideration to any potential discounts or credits to the contractor's cost. There may be instances where only one flight is available for a given mission need and, therefore, only one quote is obtained, in which case the one quotation would substantiate the lowest priced airfare available. However, auditors observing frequent instances in which a single quotation is obtained to support the airfare should assess whether the design or execution of the contractor's policies and procedures results in unreasonable airfare costs.

Costs associated with cancelling or changing restricted or non-refundable tickets should be considered an ordinary and necessary business expense unless the contractor's data show the costs are the result of a history of inadequate advance travel planning procedures.

If FAO personnel have any questions, they should contact regional personnel. In addressing FAO questions, we encourage regional personnel to refer to the discussions of public comments published in the FR, which are located on the internet at: <http://www.gpoaccess.gov/fr/retrieve.html>. (Select the 2009 Federal Register (Volume 74) and enter page number 65612.) If regional personnel have any questions, they should contact Mr. Michael Richardson, Accounting and Cost Principles Division, at (703) 767-3247 or [DCAA-PAC@dcaa.mil](mailto:DCAA-PAC@dcaa.mil).

/Signed/

Kenneth J. Saccoccia  
Assistant Director  
Policy and Plans

Enclosure:

Revised FAR 31.205-46(b) and (c) (Lined-In/Lined-Out)

DISTRIBUTION: C

**Changes to Specified Provisions of FAR Subpart 31.205-46  
Line-In/Out**

(Changes published in 74 FR 65616, dated December 10, 2009, are noted with underline for additions to the current text and ~~strikethrough~~ for deletions).

**31.205-46 Travel costs.**

\* \* \* \* \*

(b) Airfare costs in excess of the lowest ~~customary standard, coach, or equivalent~~ priced airfare ~~offered~~ available to the contractor during normal business hours are unallowable except 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.

(c) (1) "Cost of travel by contractor-owned, -leased, or -chartered aircraft," as used in this paragraph, includes the cost of lease, charter, operation (including personnel), maintenance, depreciation, insurance, and other related costs.

(2) The costs of travel by contractor-owned, -leased, or -chartered aircraft are limited to the ~~standard~~ allowable airfare described in paragraph (b) of this subsection for the flight destination unless travel by such aircraft is specifically required by contract specification, term, or condition, or a higher amount is approved by the contracting officer.

ENCLOSURE