



# *Meals*

# *Interpretive Guidance*

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**External Audits – Architectural and Engineering (A&E) Contracts**

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## Meals Interpretive Guidance

In the normal course of business, Architectural and Engineering (A&E) consultants incur costs for meals for a variety of reasons. The purpose of this document is to clarify existing Federal Acquisition Regulation (FAR) requirements and guidance provided in the AASHTO Uniform Audit & Accounting Guide for Transportation Consultants, 2012 Edition (AASHTO Audit Guide) in order to help consultants and CPA firms to better understand the proper treatment of meals costs. The requirements for meals costs incurred in the performance of direct projects are different from the requirements for the treatment of meals costs in the development of indirect cost rates. The requirements for both types of meals are discussed in this document; it is important to note, however, that the requirements differ.

### Classification of Meals Costs

Depending on the business purpose for which meal costs are incurred, the costs should be classified into various categories in the consultant's accounting records. The first and most important distinction is whether the cost was incurred in relation to a direct project. Meal costs incurred in support of or as a result of currently ongoing direct projects (as opposed to bid and proposal efforts or project pursuits) must be classified as direct costs in the consultant's accounting records, and excluded from overhead. In making this determination, the important question is "why was the cost incurred?" If the consultant would not have incurred the cost had it not been for the project, then the cost should be treated as a direct cost. Project-related meals costs must be treated as direct costs, whether billable or not. Meals incurred for non-project related activities must be treated as indirect costs and may not be invoiced as direct costs.

### Project-Related Travel Meals

Meals associated with project-related (direct) travel on Caltrans or California local government agency contracts are subject to the requirements published in the Caltrans Consultant Travel Reimbursement Guide. For local government agency contracts this requirement will be found in Chapter 10 of the Local Assistance Procedures Manual. Those requirements specify that such meals are reimbursable on the basis of actual costs, not to exceed the Caltrans state per diem limits. Costs for such meals may be subject to additional limits established in the contract. These requirements are available at the following link: <http://www.dot.ca.gov/hq/asc/travel/ch12/1consultant.htm>

### Treatment of Indirect / Overhead Meals Costs

The focus of the remainder of this document will be on meals which are for indirect (non-project) activities.

Indirect meals costs may be classified in various ways. Because the FAR provides for specific requirements for travel meals, it is appropriate to categorize meals costs into travel meals and non-travel meals. We will discuss both categories in more detail.

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### Overall FAR Requirements

FAR Part 31 establishes certain overall requirements for allowability of costs, including meals. To be allowable, meals costs must be:

- Allocable (properly allocated to direct or indirect)
- Reasonable in amount
- Properly accounted for under Generally Accepted Accounting Principles (GAAP)
- Supported by adequate documentation
- In compliance with other restrictions and requirements of FAR 31.205

The concept of allocability was discussed above. As noted, the focus of the remainder of this document is on indirect/non-project meals. Because FAR provides for specific restrictions on costs for travel meals, we will discuss reasonableness separately for travel and non-travel meals. The requirement to account for meal costs properly under GAAP includes the need to account for the costs in the proper period. The requirements for supporting documentation and other restrictions of FAR 31.205 will be discussed below.

### Documentation Requirements for Indirect Meals

FAR Part 31 establishes a requirement that consultants must provide adequate supporting documentation of costs incurred. For meals costs, this documentation should include the following items:

- 1) The business purpose for which the cost was incurred
- 2) Location (city, state) for travel meals
- 3) List of employees who attended the meal
- 4) List of any non-employees who attended the meal, along with their company/organization and respective titles
- 5) Identification of any alcohol costs, which are unallowable under FAR

Consultants must maintain receipts as documentation for meals costs, with the exception of travel meals that are paid based on an established per diem policy of the consultant. Credit card statements are not considered acceptable as a standard form of documentation of meals costs. While a credit card statement might be accepted in unusual circumstances, such as when a receipt is lost, actual meal receipts are considered the acceptable form of documentation.

If a consultant does not have a policy of requiring itemized receipts which show all of the food/beverage items purchased, the consultant should have a policy that addresses the risk of unallowable alcohol costs. For example, the consultant might require such itemized receipts for costs exceeding a certain dollar amount, or for certain types of meals. The consultant should also clearly communicate to staff the importance of properly identifying and segregating alcohol costs on the receipt or expense report.

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### Indirect Travel Meals

FAR 31.205-46 states that costs incurred for indirect travel meals “shall be considered to be reasonable and allowable only to the extent that they do not exceed on a daily basis the maximum per diem rates at the time of travel as set forth in the Federal Travel Regulations (FTR).” These maximum per diem rates are available at: [www.gsa.gov/portal/content/104877](http://www.gsa.gov/portal/content/104877)

To obtain the applicable per diem limits:

- Enter the city and state of the travel destination
- For the first and last day of travel, 75% of the listed per diem limits must be applied

Consultants should establish separate general ledger accounts for FAR-allowable and FAR-unallowable indirect meals costs. The portion of cost in excess of the FTR limits must be classified as FAR-unallowable. To comply with this FAR requirement, consultants must use one of the following methods, and should include in their documented policies and procedures which method they have chosen to use:

- 1) Compare actual indirect meals costs to the applicable per diem limits and classify amounts in excess of the limits as FAR-unallowable at the time of initial recording of the costs,
- 2) Examine indirect meals costs incurred on a periodic basis throughout the year (for example, monthly or quarterly) by comparing the actual costs to the per diem limits, and classifying amounts in excess of the limits as FAR-unallowable, or
- 3) Perform an appropriate analysis at year-end using an acceptable sampling approach to estimate the amount of indirect meals costs in excess of the FTR limits, in accordance with the requirements of FAR 31.201-6(c). The consultant should discuss the sampling approach with Caltrans A&I and receive approval in advance, prior to using this method.

Indirect travel meals are subject to the same requirements for documentation as described above. If the consultant has an established policy of reimbursing meals costs to employees based on daily per diem rates, the costs are considered allowable, subject to the following:

- 1) Such per diem amounts must be compared to the FTR limits (including 75% first and last day) and any excess is considered FAR-unallowable,
- 2) The policy must be applied consistently to government and non-government work, and regardless of whether the costs are billable, and
- 3) Expense reports must include proper support for the business purpose of the travel.
  - a. The purpose should be detailed enough to support allowability. To illustrate, the purpose of “attend meeting” or a close variation does not provide adequate support to determine allowability. Instead, a purpose of “attend meeting with information technology consultant to discuss implementation of new accounting software” provides sufficient detail to determine allowability of the cost.
  - b. Documentation should provide support for the number of meals purchased (number of attendees).

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- c. Consultants may reimburse employees for indirect travel meals on the basis of daily per diems or actual costs. If the consultant's policy is to reimburse actual costs, receipts should always be required. For allowable overhead/administrative travel meals, per diem rates are acceptable subject to the FTR limits referred to above.

### Indirect Non-Travel Meals

Meals costs incurred for certain non-travel indirect activities are allowable, subject to the requirements that the cost must have a valid business purpose, be supported by proper documentation, and be reasonable in amount.

In determining reasonableness of costs, the following FAR requirement applies:

#### **FAR 31.201-3 Determining reasonableness**

*(a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Reasonableness of specific costs must be examined with particular care in connection with consultants or their separate divisions that may not be subject to effective competitive restraints. No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the contracting officer or the contracting officer's representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable.*

*(b) What is reasonable depends upon a variety of considerations and circumstances, including—*

- (1) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance;*
- (2) Generally accepted sound business practices, arm's-length bargaining, and Federal and State laws and regulations;*
- (3) The contractor's responsibilities to the Government, other customers, the owners of the business, employees, and the public at large; and*
- (4) Any significant deviations from the contractor's established practices.*

Meals not associated with travel are allowable if they are properly supported, have a valid business purpose, and are reasonable in amount. Non-travel business meals are governed by FAR 31.205-43(c), which provides that incidental meal costs incurred during business meetings are allowable if the principal purpose of the meeting is the dissemination of trade, business, technical, or professional information. Some examples of non-travel meals which may be considered allowable include meals associated with:

- Training seminars (off-site)
- In-house training conducted during lunch
- Other meals with a valid and properly supported business purpose

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For indirect non-travel meals, the same documentation requirements apply as described above, with the additional requirement that the purpose of the meal must be properly justified. In contrast, the purpose of a travel meal is supported based on the business purpose of the travel. If overnight travel is required, the meals associated with that travel are considered necessary. For non-travel meals, it is important to adequately justify the purpose of the meal. For example, the consultant provides training on a technical or human resources topic over the lunch hour, and provides lunch in return for employees attending during their lunch hour, thereby increasing efficiency by not taking away from work time.

Another example of an allowable indirect non-travel meal is when a consultant is implementing a new phone system. Documentation is available to support the implementation requirement for all staff to be in attendance. The phone system was to be installed during normal business hours and training was to be provided during the normal meal period. The consultant provided lunch for the staff while they attended the in-house training for the new phone system. Documentation of an itemized receipt was provided to support that the meal cost was within the per diem allowable for the locale and employees completed a sign in sheet to support their attendance. A detailed training agenda was also made available.

Indirect non-travel meals must be reasonable in amount, and Caltrans considers the FTR limits as the reasonable amount. Any amount above the FTR limits must be justified by the consultant. The burden of proof rests upon the consultant to support the reasonableness of costs for non-travel meals. It is strongly recommended that consultants develop a policy regarding non-travel meals, and discuss the policy with Caltrans A&I staff. Indirect meals costs claimed as allowable must be reasonable for the circumstances and business purpose of the meal.

### Unallowable Indirect Meals Costs

Indirect meals costs which are considered unallowable include, but are not limited to:

- Meals without a valid business purpose
- Costs lacking adequate supporting documentation
- Meals associated with activities for which the costs are unallowable, such as entertainment, advertising, lobbying, charitable activities, and mergers and acquisitions
- Costs of travel meals in excess of FTR limits
- Costs of non-travel meals in excess of what is properly supported as reasonable in amount which is considered the FTR limits
- Costs of alcoholic beverages

Consultants should establish a policy regarding the costs of alcoholic beverages. If the consultant chooses to reimburse such costs to employees, appropriate steps must be taken to ensure that 1) alcohol costs are properly identified as unallowable and excluded from the indirect cost rate calculation, and 2) such costs are not invoiced as direct costs to Caltrans or any other local government agency contract. Employees should be trained on the importance of properly identifying and documenting the costs of alcoholic beverages included in meals. Consultants should establish separate general ledger accounts for unallowable meals and/or alcohol costs for use in properly segregating such costs, and should perform monitoring to ensure that employees are following the company's policies.