

# EXTERNAL AUDIT CIRCULAR No. 9



## CONNECTICUT DEPARTMENT OF TRANSPORTATION

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**SUBJECT:** Professional Activity Costs, Senior Management Meetings, Conferences, and Retreats

**Release Date:** January 1, 2012

***This Circular presents interpretative guidance regarding professional activity costs, senior management meetings, conferences and retreats and includes examples for use in determining the allowability of such costs. Please refer to Chapter 6.3, 8.2, 8.8 and 8.24 of the 2010 edition of the AASHTO Uniform Audit & Accounting Guide for additional guidance.***

### I. ISSUE

During an indirect cost rate audit, auditors typically encounter meal, lodging, and incidental costs related to conferences, seminars, senior management meetings, or retreats (hereinafter, these costs collectively are referred to as "conferences").

### II. ALLOWABILITY

#### A. Registration Fees

Registration fees are allowable to the extent that they involve business-related activities and are otherwise allowable per the Federal Acquisition Regulation (FAR). That is, the costs must be allocable to government contracts, reasonable in amount, and may not relate to any expressly unallowable costs such as advertising, promotion, or lobbying.

#### B. Meals and Incidentals

Actual costs for conference meals and incidentals that are an integral part of the conference are allowable in overhead. To be an *integral* part of the conference, meals must be provided at the conference site as an organized activity for all participants. However, the costs may not exceed the limitations described in Sections A and C of CTDOT External Audit Circular No. 8.

On a day that a conference includes a meal, the maximum meal rate for that day for nonconference meals will be reduced. Receipts are required for all conference fees, meals, lodging, and miscellaneous conference expenses. Additionally, costs associated with alcoholic beverages or tobacco products must be clearly identified and removed from indirect costs.

#### C. Lodging

Lodging at the conference site, or at a hotel identified in the conference registration materials as one of the conference hotels, is an allowable overhead cost. However, lodging costs may not exceed the limitations described in Section B of CTDOT External Audit Circular 8.

### III. BURDEN OF PROOF

The consultant bears the burden to prove that any portion of the claimed costs is allowable. For costs of conferences to be allowable in indirect costs, the consultant must demonstrate that said costs were incurred related to a valid, allowable business-related event and that the associated costs are allocable to government contracts.

For costs to be allowable, the following requirements apply:

1. A copy of the conference agenda must be retained in the consultant's records and must include dates, times, topics, and speakers;
2. A sign-in sheet with a list of attendees must be retained in the consultant's records; and
3. The length of the meeting must be supported by the agenda topics.

Any meeting costs that involve entertainment will be questioned. In cases where a consultant fails to clearly identify and disallow entertainment costs related to a meeting, the auditors will remove the entire cost of the meeting from indirect costs.

Note: Only costs for employees are eligible. Per FAR 31.205-43(c)(3), costs associated with the spouse of an attendee are not allowable because the spouse's attendance is not essential to achieve the purpose of the meeting.

### IV. EXAMPLES

**Example 9-1.** *Firm X* held its annual corporate retreat at a resort location in Florida and incurred \$5,000 in related costs. The retreat involved discussions of corporate strategy for the upcoming year and involved significant amounts of entertainment (e.g., sporting activities and banquets). During an audit, *Firm X* was unable to provide a clear segregation between the entertainment and business portions of the retreat.

Analysis: Since the consultant failed to maintain sufficient evidence to substantiate the allowability of the claimed costs, the entire \$5,000 must be removed from indirect costs.

**Example 9-2.** *Firm Y* sent its marketing manager to a series of sales seminars. The seminars primarily focused on techniques for stimulating the sales of the consultant's services and improving the consultant's image in the business community.

Analysis: The seminars are related to unallowable advertising as described in FAR 31.205-1; therefore, the costs must be removed from indirect costs.

**Example 9-3.** *Firm Z* paid a \$300 registration fee to send Smith, a *Firm Z* project manager, to a seminar entitled *Federal Contracting Proposal Preparation*. The seminar was held in Baltimore, Maryland and the firm's office was in Connecticut.

Analysis: The registration fee is allowable. Additionally, subject to the limitations described in above, the costs associated with Smith's travel, meals, lodging and incidental expenses also are allowable.

## V. REFERENCES

- FAR 31.205-43(c): (Trade, Business, Technical and Professional Activity Costs).
- FAR 31.205-46 (Travel Costs).
- FAR 31.205-51 (Costs of Alcoholic Beverages).
- FAR 31.205-14 (Entertainment Costs).
- FAR 31.205-1(b) & (c). (Most types of advertising costs are unallowable, including the salaries, fringes, and travel costs of employee who engage in such activities.)
- State Of Connecticut Travel Regulations (establishes maximum allowable rates for meals and lodging; incorporated into all contracts between CTDOT and consultants).
- CTDOT External Audit Circular No. 1 (definitions, audit authority, and general guidance regarding the computation of overhead rates).
- CTDOT External Audit Circular No. 8 (Meals, Lodging, and Incidental Expenses)
- AASHTO Uniform Audit & Accounting Guide [2010 Edition]