



**Washington State
Department of Transportation**

Interpretive Guidance Document

Auto Expense

Architectural & Engineering Firm Indirect Cost Rate

WSDOT Internal Audit Office

October 20, 2016 Update

(Originally published January 20, 2013; the guidance in this document applies to indirect costs incurred after October 19, 2016)

Interpretive Guidance for Auto Expense

Overhead Auto Expense

This Interpretive Guidance Document will address *auto expenses*. Architecture & Engineering (A&E) consultants account for auto expenses in various accounts included in the Indirect Cost Rate (ICR) Schedule. This guidance document will focus on four areas:

- Costs for Consultant Owned or Leased Vehicles
- Auto Allowance
- Luxury Vehicles
- Personally Owned Vehicle Mileage

Costs for Consultant-Owned or -Leased Vehicles

A&E firms must maintain detailed mileage logs to show direct, indirect, and personal use of all vehicles. The purpose noted on the mileage log must be detailed enough to demonstrate a legitimate identifiable business purpose. Mileage that cannot be substantiated will be disallowed. All direct vehicle costs, and costs associated with commuting and other unallowable activities (as discussed in FAR Part 31) must be removed from the indirect cost rate.

AASHTO Audit Guide – Chapter 8.26, D. Vehicle Costs

[Reference: FAR 31.205-46(d)]

In cases where consultant-owned or -leased vehicles are involved, only the portion of mileage incurred in connection with company business is allowable. Accordingly, engineering consultants are required to maintain adequate documentation such as vehicle mileage logs. The logs provide support for the firm to determine what portion of its vehicle costs are indirect and should be included in its indirect cost schedule, and what portions should be removed that are associated with personal use, direct project costs, and unallowable activities.

Interpretive Guidance for Auto Expense

Associated costs¹ such as insurance, fuel, depreciation, and maintenance for the portion of unallowable mileage should be adjusted from the ICR Schedule as well. The vehicle expense worksheet (link to worksheet below) is a tool that can assist with identifying the appropriate associated cost adjustment. If a firm applies a credit to the indirect cost pool based on the applicable rate for mileage attributable to direct, personal use, and unallowable activities, based on the mileage logs, the following worksheet may not be necessary.

<http://www.wsdot.wa.gov/Audit/FormsandTemplates.htm>

We have attached a sample mileage log for your use. This log has the required categories and may be modified to fit your firm's needs. Your firm may have other methods for tracking this necessary information².

AASHTO Audit Guide – Chapter 8.4 – Personal use of Company Vehicles
[Reference: FAR 31.205-6(m)(2)]

This cost is unallowable, including the portion of cost related to transportation to and from work regardless of whether the cost is reported as taxable income to the employees.

The Audit Office will take the context into consideration, when personal commute appears to be an issue. Company field vehicles, for example, are often not parked at the office at night, but are taken from field site to field site by employees. Such vehicles are typically used to move various equipment from site to site. The employee may not typically go to the office on a daily basis, so the company vehicle is assigned to him/her and is driven home on a daily basis. When such a situation exists, the firm should document this use and make clear that it is not daily commute – but commute from field site to field site, and why this is necessary. These types of field equipment vehicles are typically billed to projects.

¹ Costs that are unallowable or mutually agreed to be unallowable include the directly associated costs and those associated costs shall also be identified and adjusted from the ICR Schedule per 48 CFR 31.201-6(a).

² Mileage directly associated to a project should be billed in accordance with the terms & conditions of the agreement. Standard WSDOT A&E Agreements require that mileage requested for reimbursement comply with the requirements in the WSDOT Accounting Manual, M13-82, Chapter 10 Travel.

WSDOT Internal Audit Office

October 20, 2016

Interpretive Guidance for Auto Expense

Auto Allowance

A&E firms might pay an annual auto allowance to its employees; usually it is paid to top executives, principals, or owners. The firm must maintain detailed mileage logs to support the auto allowance. The firm should be able to show the total mileage on these logs equates to the auto allowance. As with company vehicles, the mileage logs to support the auto allowance must show direct, indirect, and personal use (to include unallowable selling & advertising miles). The purpose must be detailed enough to demonstrate that the cost is a legitimate business expense: For example, “Seattle Meeting” is not a sufficient description. We would expect to see a description with more detail to substantiate the business purpose. Examples of acceptable descriptions include: “Meeting with the Project Team to discuss the Phase 1 timeline:” “Meeting with John Doe of XYZ Corporation to submit a proposal for ABC bridge project;” or “Travel to ABC Training in Seattle.”

48 CFR 31.201-2 (d) Determining allowability.

(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.

48CFR 31.201-3 (a) Determining reasonableness.

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 firms 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.

Luxury Vehicles

The same documentation requirements apply to luxury vehicles, as relates to other vehicles. Firms must adjust the ICR Schedule for allowable luxury vehicles and related expenses to reasonable amounts. Reasonable amounts would include what

Interpretive Guidance for Auto Expense

a consultant might pay for a standard vehicle. Common luxury vehicles include but are not limited to Mercedes, BMW, Tesla, etc.

As part of our indirect cost rate review or audit process we ask A&E firms to provide detailed mileage logs, demonstrate that the luxury vehicle is an ordinary and necessary business expense, and provide details to support that expense. We also review the support to determine if the car is assigned to one person, and what that person's billable percentage is. One aspect we consider is the year of the luxury vehicle.

Personally Owned Vehicle Mileage

As with contractor-owned or -leased vehicles, reimbursed personal vehicle mileage that cannot be substantiated will be disallowed. The employee's expense report, mileage log, or other form used to document reimbursement should clearly indicate the business purpose, origin and destination, and the specific mileage with rate used to calculate reimbursement. Please note, project related mileage (whether billable or not) should not be included in the indirect cost pool.

Reference 48 CFR 31.201-2(d) and 48 CFR 31.202

