



**Washington State
Department of Transportation**

Interpretive Guidance Document

Auto Expense

Architectural & Engineering Firm Indirect Cost Rate

WSDOT Internal Audit Office

January 29, 2013

Interpretive Guidance for Auto Expense

Indirect Cost Auto Expense

This Interpretive Guidance Document will address *auto expenses*. Architecture & Engineering (A&E) consultants account for auto expenses in various accounts included in their Indirect Cost Rate . This Guidance Document will focus on three areas:

- Costs for Contractor Owned or Leased Vehicles
- Auto Allowance
- Luxury Vehicles

Costs for Contractor Owned or Leased Vehicles

A&E firms must maintain detailed mileage logs to show direct, indirect, and personal use of all vehicles. Personal miles include nonbusiness miles driven for personal commute, personal errands, and for unallowable selling and advertising mileage. The purpose must be detailed enough to demonstrate a legitimate identifiable business purpose. Mileage that cannot be substantiated will be disallowed.

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 of this necessary information.

48 CFR 31.205-46 (d) Costs of contractor-owned or -leased automobiles, as used in this paragraph, include the costs of lease, operation (including personnel), maintenance, depreciation, insurance, etc. These costs are allowable, if reasonable, to the extent that the automobiles are used for company business. That portion of the cost of company-furnished automobiles that relates to personal use by employees (including transportation to and from work) is compensation for personal services and is unallowable as stated in 31.205-6(m)(2).

48 CFR 31.205-6 (m) (2) Fringe benefits.

(2) That portion of the cost of company-furnished automobiles that relates to personal use by employees (including transportation to and from work) is unallowable regardless of whether the cost is reported as taxable income to the employees

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AASHTO Audit Guide – Chapter 8.26, D. Vehicle Costs

In cases where transportation costs and consultant-owned or -leased vehicles are involved, only the portion of mileage incurred in connection with company business are allowable; accordingly, engineering consultants are encouraged to maintain mileage logs. Auto lease payments incurred without a documented business purpose do not meet the criteria contained in FAR 31.206-46(d); therefore, these costs are unallowable in full. Related costs such as insurance, gasoline, and car repair also would be unallowable. Extra scrutiny should be applied to costs associated with luxury vehicles.

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. Costs associated with luxury vehicles warrant additional attention to ensure costs are reasonable, allowable, and allocable.

The Audit Office will take the context into consideration, when personal commute appears to be an issue. Company vehicles such as Field Trucks are often not parked at the office at night, but are taken from field site to field site by employees. Such trucks 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 his truck is assigned to him and as such is driven home on a daily basis. When such a situation exists the firm should document such 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 trucks are typically billed to projects.

Auto Allowance

Many A&E firms pay an annual auto allowance, usually paid to top executives, principals, or owners. The firm must maintain detailed mileage logs to support the auto allowance. The mileage logs should support the annual allowance paid. The firm should be able to show that the total mileage on these logs equates to the auto allowance. The mileage logs 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. Please note that a purpose of “Seattle Meeting” is not sufficient purpose description for a business purpose. We would expect to see a brief description of what the meeting was for. Examples of acceptable descriptions include: “Meeting with the Project Team to discuss the Phase 1 timeline”, “Meeting with John Doe of XYZ

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Corporation to submit a proposal”, or “Travel to ABC Training in Seattle”. The purpose needs to be detailed enough to determine allowability.

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 their Indirect Cost Rate for allowable luxury vehicles and related expenses to reasonable amounts. Reasonable amounts would include what a consultant might pay for a standard vehicle. Common luxury vehicles include but are not limited to Mercedes, BMW, Audi, Cadillac, etc.

AASHTO Chapter 8.4 – PERSONAL USE OF COMPANY VEHICLES

[Reference: FAR 31.205-6(m)(2)]

Costs associated with luxury vehicles warrant additional attention to ensure costs are reasonable, allowable, and allocable

AASHTO Chapter 8.26 - D. Vehicle Costs

Extra scrutiny should be applied to costs associated with luxury vehicles.

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As part of our desk review or Indirect Cost Rate 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 the business expense. Further we do review and question if the car is assigned to one person, to determine that person's billable percentage. Age of the luxury vehicle is one of the aspects to be considered.

As noted during recent National Highway Institute (NHI) Training, without detailed mileage logs, auto expenses, (to include annual auto allowance) and all related expenses are an unallowable cost. This training was sponsored by FHWA.

Reference 48 CFR 31.201-2(d)

Reference 48 CFR 31.201-3(a)

Direct Charge Auto Expense to WSDOT Agreements

Please remember that when billing auto mileage to a WSDOT agreement, there are additional criteria that must be considered. Our standard WSDOT Agreement requires that mileage and other auto expenses be billed in accordance with [WSDOT Accounting Manual, M13-82, Chapter 10 Travel](#).

