



INDIANA DEPARTMENT OF TRANSPORTATION

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DIVISION OF EXTERNAL AUDITS **Contract Audit Circular 2018-01** August 4, 2017

Accumulation and Billing of Direct Costs Associated with More Than One Project

Firms incurring direct costs which are related to more than one work project must charge those costs to each project proportionately. Part 31.201-4(b) of the Federal Acquisition Regulations (FAR) supports such allocation.

31.201-4 Determining allocability.

A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it—

- (a) Is incurred specifically for the contract;
- (b) **Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received;** or
- (c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.

When an employee incurs overnight travel with hotel and per diem costs, and that employee works on more than one project, the employee's direct costs shall be allocated across all projects and activities proportionally by hours spent on each project or activity.

To illustrate: if the employee worked two (2) hours on a cost plus fixed fee government contract, three (3) hours on a lump sum government contract, two (2) hours on a private industry project, and one (1) hour on general administrative duties, the direct costs of the hotel and per diem would be allocated and charged as follows: 25% to the cost plus fixed fee contract, 37.5% to the lump sum contract, 25% to the private industry project, and the remaining 12.5% would be charged to administration as an allowable overhead cost if that administrative work was spent on allowable administrative tasks.

If the general administrative duties were related to activities unallowable under Federal Acquisition Regulations, this portion must be deducted from overhead as unallowable.