

White Paper //

Compliance with FAR 31.205-35(b) – Lump-Sum Relocation Cost Reimbursement

On September 30, 2005 the Relocation Cost Principal FAR 31.205-35(b) was revised to include the following language relative to the allowability of lump-sum payments.

(4) Amounts to be reimbursed shall not exceed the employee's actual expenses, except as provided for in paragraphs (b)(5) and (b)(6) of this subsection.

(5) For miscellaneous costs of the type discussed in paragraph (a)(5) of this subsection, a lump-sum amount, not to exceed \$5,000, may be allowed in lieu of actual costs.

(6)(i) Reimbursement on a lump-sum basis may be allowed for any of the following relocation costs when adequately supported by data on the individual elements (e.g., transportation, lodging, and meals) comprising the build-up of the lump-sum amount to be paid based on the circumstances of the particular employee's relocation:

(A) Costs of finding a new home, as discussed in paragraph (a)(2) of this subsection.

(B) Costs of travel to the new location, as discussed in paragraph (a)(1) of this subsection (but not costs for the transportation of household goods).



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(C) Costs of temporary lodging, as discussed in paragraph (a)(2) of this subsection.

(6)(ii) When reimbursement on a lump sum-basis is used, any adjustments to reflect actual costs are unallowable.

This revised regulation became effective October 31, 2005.

Implementation

In implementing this new regulation the contractor must address several key requirements identified in paragraph (6)(i). The amount of lump-sum payment must be

- *“adequately supported by data on the individual elements (e.g., transportation, lodging, and meals comprising the build-up of the lump-sum amount to be paid”*

and the need for the lump-sum amount determined to be

- *“based on the circumstances of the particular employees relocation”.*

To be adequately supported each cost element anticipated to be incurred by the relocating employee and his or her family applicable to the categories of relocation costs listed in (6)(i)(A), (B) and (C) above must be defined and supported. As examples:

- (1) When determining the lump-sum amount to be provided to the employee for finding a new home in the new location the number of trips allowed will have to be defined (established by written policy), the number of people involved (employee and spouse), and the estimated cost (airfare, train, mileage) calculated. The number of days to be utilized in finding a new home (again established by written policy) times the appropriate per diem amounts for meals and lodging (adjusted to result in a reasonable charge) must be determined. Additional allowable expenses may also be specifically identified and estimated for inclusion in the lump-sum amount to be provided.



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- (2) Lump-sum amounts to cover the costs associated with travel to the new location will have to address the mode of transportation (air, train, personal vehicle), the estimated cost (airfare, train, mileage), the number of days of travel, the number of people involved (employee, spouse, children, etc.), and the associated per diem amounts for meals and lodging (again adjusted to result in a reasonable charge). Additional allowable expenses may also be specifically identified and estimated for inclusion in the lump-sum amount to be provided.
- (3) Anticipated temporary lodging costs need to be identified based on the time to be allowed (established by written policy), the number of people involved and the anticipated lodging venue (hotel, apartment, etc.). Costs estimated for temporary lodging using per diem rates need to be adjusted to result in a reasonable charge. Anticipated lease costs need to be determined in lieu of per diems for lodging where applicable.

The revised regulation specifically references temporary “lodging” and not temporary “living” expenses. If lump-sum amounts are to be provided for meal expenses during temporary living a method using per diems will have to be developed that is adjusted to result in a reasonable charge.

The requirement for lump sum amounts to be based on the circumstances of the particular employees relocation will require the establishment of a process that can be applied to each specific employee and that employees relocation circumstance and will prohibit the use of a predetermined flat amount not specifically adjusted to the particular relocation scenario to which it is being applied.

It is also important to remember that as noted in (6)(ii) “ *When reimbursement on a lump sum-basis is used, any adjustments to reflect actual costs are unallowable*”. Providing a lump-sum amount to the employee does not require him or her to document the actual



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expenses incurred and does not require the employee to return any unused amount. Consequently, the employee cannot request additional amounts to compensate for actual costs incurred in excess of the lump-sum amount provided for the specific items of expense identified in the calculated lump-sum amount.

Conclusion

Contractors should document the process developed for the calculation and application of the lump-sum relocation amount in written policies and procedures and ensure that the process is consistently applied.

To further ensure the allowability, allocability and reasonableness of the lump sum amounts determined under these policies and procedures the contractor should obtain an advanced agreement with the cognizant administrative officer (ACO) or other contracting officer as defined at FAR 31.109, Advance agreements.



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