



OFFICE OF THE UNDER SECRETARY OF DEFENSE
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WASHINGTON, DC 20301-3000

OCT 11 2005

ACQUISITION
TECHNOLOGY
AND LOGISTICS

MEMORANDUM FOR DIRECTORS OF DEFENSE AGENCIES
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(POLICY AND PROCUREMENT), ASA(ALT)
DEPUTY ASSISTANT SECRETARY OF THE NAVY
(ACQUISITION MANAGEMENT), ASN(RDA)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING), SAF/AQC
DIRECTOR, DEFENSE CONTRACT MANAGEMENT
AGENCY
EXECUTIVE DIRECTOR, ACQUISITION, TECHNOLOGY
AND SUPPLY DIRECTORATE (DLA)

SUBJECT: Allowability of Paid Administrative Leave Granted to Contractor Employees
Due to Hurricane Katrina Closures

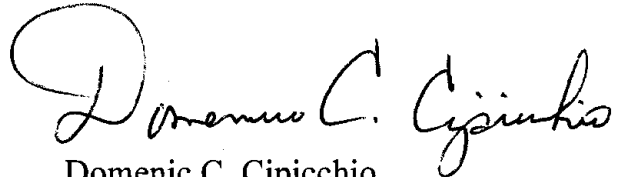
We have received a number of inquiries from defense contractors regarding the cost allowability of paid administrative leave which they have granted to their employees who were unable to report for work due to Hurricane Katrina closures. Such paid absences are a fringe benefit, and their allowability should be evaluated on a case-by-case basis in accordance with Federal Acquisition Regulation (FAR) 31.205-6, "Compensation for Personal Services." The key issue is whether or not the specific circumstances in each case warranted the payment of administrative leave. Factors to be considered in determining the reasonableness of making such payments include whether other businesses and organizations in the same geographical area were closed as a result of Hurricane Katrina. In particular, the fact that Federal employees in the same area were granted paid administrative leave by their local management due to a Hurricane Katrina evacuation order and/or closure would generally support a finding that it was reasonable for a contractor to similarly incur administrative leave costs for its employees. These same considerations are equally applicable to any Hurricane Rita closures.

Since the devastation from Hurricane Katrina has led to a number of other unusual contractor expenditures in support of displaced employees, we strongly encourage contracting officers and contractors to seek detailed advance agreements under FAR 31.109 to avoid disputes over the reasonableness and allowability of such employee assistance costs. However, care should also be taken to ensure that the Government does not approve payments for contractor costs associated with Hurricane Katrina until all avenues for recovery from insurance carriers have been exhausted, if such costs are



potentially recoverable through insurance by the contractor. We are concerned that if the Government pays the costs, or agrees that the costs are even conditionally allowable, there is a risk that insurers will deny coverage on the basis that there has been no loss suffered by the contractor.

Please ensure this guidance receives the widest possible dissemination within the defense acquisition community. Questions may be directed to Mr. Christopher Werner of my staff at (703) 695-9764 or christopher.werner@osd.mil.

A handwritten signature in black ink, reading "Domenic C. Cipicchio". The signature is written in a cursive style with a large, looping initial "D".

Domenic C. Cipicchio
Acting Director, Defense Procurement
and Acquisition Policy