

SELECTED AREAS OF COST

Chapter 1 – Advertising and Public Relations

Authoritative Sources

[FAR 31.205-1](#) Public Relations and Advertising Costs

[FAR 31.205-38](#) Selling Costs

[FAR 31.205-33](#) Professional and Consultant Service Costs

[FAR 31.205-28](#) Other Business Expenses

[FAR 31.205-43](#) Trade, Business, Technical, and Professional Activity Costs

[FAR 31.205-8](#) Contributions or Donations

[FAR 31.205-13](#) Employee Morale, Health, Welfare, Food Service, and Dormitory Costs and Credits

This chapter provides supplemental guidance on audits of public relations and advertising costs including publications. The guidance in CAM Chapters 2 through 6, 8, and 9 also applies to these areas.

This chapter addresses the following topics:

- 1-1 FAR Definitions of Public Relations and Advertising Costs
- 1-2 Allowability of Public Relations and Advertising Cost
- 1-3 Review of Public Relations Costs
- 1-4 Publication Costs
- 1-5 Contractor Logos and Emblems

1-1 FAR Definitions of Public Relations and Advertising

Public relations and advertising costs include the costs of media time and space, purchased services performed by outside organizations, as well as the applicable portion of salaries, travel, and fringe benefits of employees engaged in the functions and activities identified in the FAR 31.205-1 definitions of public relations and advertising.

(1) Public relations as defined in FAR 31.205-1(a) means all functions and activities dedicated to:

(a) Maintaining, protecting, and enhancing the image of a concern or its products;
or

(b) Maintaining or promoting reciprocal understanding and favorable relations with the public at large, or any segment of the public. The term public relations includes activities associated with areas such as advertising and customer relations.

Chapter 1

(2) Advertising as defined in FAR 31.205-1(b) means the use of media to promote the sale of products or services and to accomplish the activities referred to in FAR 31.205-1(d) (See Paragraph 1-2.1) regardless of the medium employed, when the advertiser has control over the form and content of what will appear, the media in which it will appear, and when it will appear.

Advertising media include but are not limited to conventions, exhibits, free goods, samples, magazines, newspapers, trade papers, direct mail, dealer cards, window displays, outdoor advertising, radio, television, and internet/web-based.

1-2 Allowability of Public Relations and Advertising Cost

FAR provisions 31.205-1(d), (e), and (f) address the allowability of public relations and advertising costs. These provisions and supplemental audit guidance are provided in the following paragraphs:

1-2.1 Advertising Costs:

All advertising costs other than those specified in FAR 31.205-1(d) are unallowable. Allowable advertising costs include:

(1) Costs that arise from requirements of Government contracts and that are exclusively for:

(a) Acquiring scarce items for contract performance; or

(b) Disposing of scrap or surplus materials acquired for contract performance. If incurred for more than one Government contract or both Government and other work of the contractor, costs of this nature are allowable to the extent that the principles in FAR 31.201-3 (reasonableness), FAR 31.201-4 (allocability), and FAR 31.203 (allocation of indirect costs) are observed.

(2) Costs to promote sales of products normally sold to the U.S. Government that contain a significant effort to promote exports from the United States.

(3) Costs that are allowable in accordance with FAR 31.205-34, Recruitment Costs. See Guidebook Chapter 60.

1-2.2 Public Relations Costs:

FAR 31.205-1(e) addresses allowable public relations costs, which include:

(1) Contract Requirements:

Public relations costs specifically required by contract.

Chapter 1

(2) Liaison Cost incurred for:

- (a) responding to inquiries on company policies and activities;
- (b) communicating with the public, press, stockholders, creditors, and customers; and
- (c) conducting general liaison with news media and Government public relations officers, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern such as notice of contract awards, plant closings or openings, employee layoffs or rehires, and financial information.

(3) Costs of participation in community service activities such as blood bank drives, charity drives, savings bond drives, and disaster assistance. (But see FAR 31.205-8 and FAR 31.205-1(f)(8) and Paragraph 1-2.3, Subparagraph (8).

(4) Costs of plant tours and open houses.

(5) Costs of keel laying, ship launching, commissioning, and roll-out ceremonies, to the extent specifically provided for by contract.

1-2.3 Unallowable Public Relations and Advertising Costs:

FAR 31.205-1(f) addresses unallowable public relations and advertising costs, which include:

(1) Other Public Relations Costs to Promote Sales

Under FAR 31.205-1(f)(1), unallowable public relations costs and advertising costs include costs of efforts whose primary purpose is to promote the sale of products or services by stimulating interest in a product or product line, or disseminating messages calling favorable attention to the contractor for purposes of enhancing the company image to sell the company's products or services. Exceptions to this unallowability rule include:

- (a) a list of allowable advertising costs in FAR 31.205-1(d);
- (b) a limited list of allowable public relations costs in FAR 31.205-1(e); and
- (c) direct selling efforts discussed in FAR 31.205-38(b)(5).

(2) Air Shows, Special Events, and Trade Shows with no foreign sales (export) value.

Advertising costs of air shows, special sales events, and trade shows with no foreign sales (export) value are unallowable under FAR 31.205(f)(2).

(3) Meetings, Symposia, Seminars, and Other Special Events

Chapter 1

Costs of sponsoring meetings, symposia, seminars, and other special events when the principal purpose of the event is other than dissemination of technical information or stimulation of production are unallowable under FAR 31.205-1(f)(3).

(4) Ceremonial Costs

Costs of ceremonies such as corporate celebrations and new product announcements are unallowable under FAR 31.205-1(f)(4).

(5) Promotional Material

Costs of promotional material, motion pictures, videotapes, brochures, handouts, magazines, and other media that are designed to call favorable attention to the contractor and its activities are unallowable FAR 31.205(f)(5).

(6) Souvenirs, Models, and Mementos

Costs of souvenirs, models, imprinted clothing, buttons, and other mementos provided to customers or the public are unallowable under FAR 31.205-1(f)(6).

(7) Costs of Memberships

Costs of memberships in civic and community organizations are unallowable under FAR 31.205(f)(7).

(8) Donation of Excess Food to Nonprofit Organizations

Costs associated with the donation of excess food to nonprofit organizations in accordance with the Federal Food Donation Act of 2008 are unallowable under FAR 31.205-1(f)(8).

1-3 Review of Public Relations Costs

Public relations consists of different types of materials and services which by themselves may be separately treated in FAR 31.205. Moreover, many contractors do not establish public relations as a separate category of cost in their accounting systems. Although they may be recorded in other accounts, public relations costs are most likely to be found as part of:

(1) Advertising Costs (FAR 31.205-1).

(2) Compensation for Personal Services (FAR 31.205-6).

(3) Contributions and Donations (FAR 31.205-8).

(4) Employee Morale, Health, Welfare and Food Service and Dormitory Costs and Credits (FAR 31.205-13).

(5) Entertainment Costs (FAR 31.205-14).

Chapter 1

(6) Labor Relations Costs (FAR 31.205-21).

(7) Other Business Expenses (FAR 31.205-28).

(8) Professional and Consultant Service Costs-Legal, Accounting, Engineering and Other (FAR 31.205-33).

(9) Selling Costs (FAR 31.205-38).

(10) Trade, Business, Technical and Professional Activity Costs (FAR 31.205-43).

AUDIT GUIDELINES

Contractor expenditures for public relations and advertising activities identified in FAR 31.205-1(f) (See Paragraph 1-2.3) and those which meet the criteria for contributions and donations, or entertainment costs are unallowable under the cited FAR provisions. The extent of and criteria for allowability of the other above listed cost categories are expressed in the identified FAR paragraphs. Appropriate audit steps should be designed to identify public relations items in each category and to evaluate their allowability.

Public relations types of costs are particularly sensitive because of their controversial nature. Audit coverage should therefore be of commensurate scope and depth. Reasons given in audit reports for audit questioned or disapproved costs should be clear, precise, and complete.

1-4 Publication Costs

Publication costs claimed by a contractor may include costs related to the preparation and dissemination of such items as plant newspapers and magazines, recruitment pamphlets, technical brochures, and contractor and product capability promotional items. These items may be disseminated in hardcopy or electronic format (e.g., web pages, web sites, CDs, etc.), or both. While the amounts individually may not be significant, collectively on DoD procurements they amount to significant dollars.

AUDIT GUIDELINES

Audits of claimed publications costs should be based on an appropriate examination of the contractor's policies and procedures (See CAM Section 6-600), as well as on a selective review of individual publications. FAR specifically allows (within limitations) help wanted, scarce and scrap material advertising (31.205-1(d)); house publications (31.205-13); and corporate stockholders reports (31.205-28).

1-5 Contractor Logos and Emblems

A common practice for a company is to identify its products using logos and emblems. Some contracting officers are concerned over the costs being incurred for contractors' logos and emblems being placed on Government systems. These contracting officers are treating the direct and indirect costs for logos and emblems produced by means of

Chapter 1

a special mold or casting (not simple stick-on adhesive decals) as unallowable advertising costs under FAR 31.205-1.

The contracting officers' position reflects an internal negotiating/contracting policy. This policy is enforceable to the extent that contracting officers obtain contractor concurrence and include a specific clause in contracts making such costs expressly unallowable or issue a notice of intent to disallow. Unless contracts contain such a clause, contractors need only comply with FAR 31.205-1 and FAR 31.201-3, Reasonableness.

The use of the terminology "logos and emblems" may be misleading. Logo is an abbreviation for the word logotype, which actually means the standard ways in which to letter or set in type the company trade name, while emblem represents the mark of a nonprofit organization. However, "contractor logos and emblems" as used in Government contracting represent the actual design and typesetting of all company marks. Company marks can be trademarks (companies who manufacture products) or service marks (companies who provide services to their customers). Regardless of the type of mark, the key factor is the purpose for which the marks are designed. Marks are initially designed to meet three main purposes:

- (1) to indicate the origin of the product or service provided,
- (2) to guarantee quality consistency (the mark tells the buyer that the product or service is the same as that provided previously), and
- (3) to serve as an advertisement (simple enough to catch attention, complete enough to tell a story, and persuasive enough to move the viewer to action).

When a company initially designs a mark, each of these three purposes are relevant.

AUDIT GUIDELINES

Auditors should evaluate proposed advertising costs, including the redesign of logos and emblems, in accordance with the FAR. Excessive costs of logos and emblems, even those falling within allowable categories under the FAR provisions, should be questioned based on reasonableness.

Comments may be included, as part of the applicable report exhibit note, on the effect of the contracting officer's position on proposed costs.

FAOs should assure that the auditor's review of contract provisions (See CAM Section 3-302) clearly identify special contract clauses disallowing the costs of logos and emblems. Audit programs for evaluation of direct and indirect costs should include steps to verify compliance with this and other contractual cost limitations.