



**Washington State  
Department of Transportation**

**Interpretive Guidance Document**  
*Allowable Marketing*  
**Architectural & Engineering Firm Overhead**

**WSDOT Internal Audit Office**

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## Interpretive Guidance Document - Marketing

This Interpretive Guidance Document will address what is typically a relatively large cost item for Architectural and Engineering (A&E) Consultants – **Marketing**. We currently are working with the Consulting firms to help them to account for these costs adequately, and to make appropriate adjustments. To promote compliance, we also are discussing this item with CPA firms that perform audits of consultants' overhead schedules.

### Marketing Described

The Federal Acquisition Regulations (FARS) at 48 CFR 31.205-1 (f) (2), 31.205-34, & 31.205-38 (b) (5) include requirements for certain types of expenses to be allowable as overhead costs for Architectural & Engineering (A&E) firms.

*Reference American Association of State Highway and Transportation Officials (AASHTO) Audit Guide, Chapter 8.12, footnote page 73.*

Marketing is a term that is often used to refer to one or more types of costs in FARS, each with different rules for allowability. A firm might include **Bid & Proposal, Direct Selling, Advertising, Public Relations**, within the same account and/or refer to these as marketing costs. Each of these categories has different criteria for allowability. We discuss each of these categories briefly below.

### Allowable marketing costs include:

*Allowable Bid & Proposal* Bid and proposal (B&P) costs are the costs incurred in preparing, submitting, and supporting bids and proposals on potential government or non-government contracts. The term does not include the costs of effort sponsored by a grant or cooperative agreement, or required in the performance of a contract. The FARS at 48 CFR 31.205-18, and the Cost Accounting Standards (CAS) 420.30 (a) (2) include criteria for recording B&P costs.

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B&P costs are allowable to the extent that they are accounted for in the same manner as project costs. Further, labor costs associated with B&P activities should be clearly identified and must be segregated from other indirect labor activities as noted in Chapter 8.13 of the 2010 American Association of State Highway and Transportation Officials (AASHTO) Audit Guide. B&P costs that do not meet the criteria in FARS are not allowable.

*Reference AASHTO Audit Guide Chapter 6.2, 6.3, and 8.13.*

*Employee recruitment*, including help-wanted advertising costs in accordance with FAR 31.205-34. Related help-wanted advertising is allowable for recruiting direct as well as indirect labor. However, such costs are considered unallowable when no specific vacancies are to be filled or if the advertising done is out of proportion to the number or importance of the positions to be filled.

*Reference AASHTO Audit Guide, Chapter 8.2.*

*Allowable Public Relations* The term public relations includes activities associated with advertising and customer relations. Allowable public relations costs include costs 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.

*Reference AASHTO Audit Guide, Chapters 6.3 and 8.2- C.*

*Costs of activities to promote sales of products normally sold to the U.S.*

*Government*, including those trade shows, which contain a significant effort to promote exports from the United States. Trade shows have to include a significant effort to market to the government to be allowable.

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*Direct selling* is characterized by person-to-person contact and includes such efforts as familiarizing a potential customer with the Consultant's products or services, conditions of sale, service capabilities, and similar items. It also includes negotiation, liaison between customer and Consultant personnel, technical and consulting efforts, individual demonstrations, and any other efforts having as their purpose the application or adaptation of the consultant's products or services for a particular customer's use. Generally, the costs of direct selling efforts are allowable if the Consultant has documented these expenses to show that they were related to person-to-person contact to induce a particular customer to purchase the Consultant's services.

*Reference AASHTO Audit Guide Chapters 6.3 – B.1, and 8.24.*

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Unallowable marketing costs include:

*General Guidance* Unallowable marketing costs are general in nature, and may include time spent searching for work, developing promotional materials, and attending functions & activities to enhance the company's image. The company website typically has items that are considered image-enhancing, including photos of projects. General marketing items & labor are identified in 48 CFR 31.205-1 (f) (2), and include trade show expenses & labor.

*Reference AASHTO Audit Guide, Chapter 6.3.*

Unallowable marketing costs also include costs associated with help-wanted advertising that does not describe specific positions or classes of positions; or includes material that is not relevant for recruitment purposes, such as extensive illustrations or descriptions of the company's products or capabilities.

*Reference AASHTO Audit Guide, Chapter 8.2-A, and 8.24 under general marketing.*

*Unallowable public relations* costs include promoting or maintaining favorable relations with the public, and include costs of promotional material, motion pictures, videotapes, brochures, handouts, and magazines that are designed to elicit favorable attention to consultants. Costs of memberships in civic & community organizations and costs of souvenirs, models, imprinted clothing, buttons & other mementos provided to customers or the public as also unallowable.

*Reference AASHTO Audit Guide, Chapter 8.2 – C.*

*Unallowable advertising* costs include the use of media to promote the sale of products or services. Such costs include but are not limited to conventions, exhibits, free goods, samples, magazines, newspapers, trade papers, direct mail, window displays, outdoor advertising, radio, and television. The firm's website, Facebook, and Twitter might also include unallowable advertising costs.

*Reference AASHTO Audit Guide, Chapter 8.2.*