

Marketing, Public Relations and Business  
Development Cost Policy  
For Employees, Subcontractors, and Consultants

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**SOUTHERN RESEARCH INSTITUTE (SR)**

For Questions Contact the Controller

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# Marketing, Public Relations, and Business Development Cost Policy

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# Marketing, Public Relations, and Business Development Cost Policy

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## **MARKETING, PUBLIC RELATIONS, & BUSINESS DEVELOPMENT COST ENFORCEMENT**

### **Purpose**

Marketing, Public Relations and Business Development (in application to SR is broadly defined to include Lobbying, Organizational Costs, Financing and Fund Raising) are ordinary and necessary business expenses. However, due to U.S. Government Contract Regulations and our fiduciary responsibility to the Institute, it is necessary that SR require that these activities and the related expenses conform to specific guidelines and regulations. The policy provides definitions, guidelines and regulatory references to assist SR employees and managers in understanding our contractual obligations and constraints which limit the government reimbursement of certain ordinary and necessary expenses. It is essential that SR employees and managers have a fundamental understanding of the definitions and the sometimes fine line between allowable activities (billable on government contracts) and unallowable activities (non-billable on government contracts). In general the relevant regulations apply equally to project direct costs as well as to indirect or general and administrative costs. These regulations also apply to subcontractors and consultants engaged by SR; hence, a subcontract or consulting agreement must identify and differentiate allowable activities from unallowable activities in the same manner as applied to SR employees and managers.

### **Objectives**

1. Ensure all employees have a clear and consistent understanding of policies and procedures for marketing, public relations, and business development activities and costs.
2. Maximize SR's ability to recover these costs on U.S. Government Contracts while simultaneously minimizing the risk of issues stemming from noncompliance with contract terms and conditions.

### **Scope**

This marketing, public relations, and business development applies to all employees, subcontractors, and consultants of SR and is effective June 2014.

### **Responsibility and Enforcement**

The employee is responsible for complying with this policy, in particular as it relates to labor time charges as well as any associated non-labor costs. The approvers are responsible for verifying that activities are properly categorized and sufficiently documented to allow a third party (e.g. government or internal auditor) to verify that labor and non-labor costs have been appropriately recorded vis-à-vis the applicable government regulations (FAR cost principles as further discussed herein).

Employees and the approvers are responsible for ensuring that labor and any associated non-labor costs are consistently categorized; for example, that employee time spent with a consultant is consistent with the charging (allowable or unallowable) for the consultant costs and/or employee travel costs. If the consultant is engaged in unallowable lobbying,

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employee time/labor costs working with that consultant would also be unallowable lobbying.

Time charging employee input and the review and approval are covered in SR timekeeping policy posted on the SR intranet. In addition to ensuring that certain activities are appropriately recorded (allowable vs. unallowable), the employee and the approver are responsible for ensuring that the time charge is appropriately charged direct (project or contract), Bid and Proposal (B&P) project, or indirect (overhead or G&A). The use of consultants and other third parties for any of the activities delineated herein is covered by the procurement policies for initiating the third party services agreement and by Accounts Payable for ensuring that the third party documentation and SR review, approval, and payment conforms to the Accounts Payable policies. Employee travel cost reimbursement is covered in SR Travel Policy posted on the SR intranet.

## **Point of Contact for Marketing, Public Relations, and Business Development Policy Issues**

Please direct any questions or concerns to the Controller.

### **MARKETING, PUBLIC RELATIONS, AND BUSINESS DEVELOPMENT COSTS**

#### **Types or categories of activities and the Government Regulation(s) which define allowable (billable) vs. unallowable (unbillable) costs**

1. Professional and consulting costs (FAR 31.205-33)
2. Advertising and public relations costs (FAR 31.205-1)
3. Lobbying and political activity costs (FAR 31.205-22)
4. Selling costs (FAR 31.205-38)
5. Economic planning costs (FAR 31.205-12)
6. Entertainment (FAR 31.205-14)
7. Bid and proposal costs (FAR 31.205-18)
8. Organization costs (FAR 31.205-27)

**Specific regulatory requirements including definitions applicable to certain activities and differentiating allowable (billable) vs. unallowable (unbillable) costs.**

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## **Professional and consulting (FAR 31.205-33).**

Defined as those services rendered by persons who are members of a particular profession or possess a special skill and who are not officers or employees of the company. Professional and consulting services are generally acquired to obtain information, advice, opinions, alternatives, conclusions or recommendations, training, or direct assistance such as studies, analysis, evaluations, liaison with Government officials or other forms of representation.

In application to SR, these services could be subject matter experts working directly on a project/contract or other consulting and professional services working on indirect or G&A projects. The distinction between a consultant and other third party services such as purchased labor or temporary labor should be made during the procurement of these services with the requesting SR employee working in conjunction with the Procurement Department. At the outset or initiation of a consulting agreement, the nature of the services must be defined as well as the terms and conditions (e.g. consultant category and hourly rates). Consultant services must be identified as allowable or unallowable at the initiation of a consulting agreement and the consultant invoices must list the time expended and the nature of the services and the agreement should require some form of work product (trip reports or final report). The nature of the services provided and the work product should conform to the statement of work within the engagement agreement. Ultimately, cost allowability is a function of the nature of the services (e.g. consulting services which are lobbying are unallowable) as well as documentation which complies with the regulatory requirement (three parts including the engagement, the invoices, and the work product). To the extent the nature of the services will determine allowability, professional and consulting services must be evaluated within the context of the other regulations discussed herein.

## **Advertising and Public Relations (FAR 31.205-1)**

Unallowable public relations and advertising. Public relations are defined as all functions and activities dedicated to maintaining and enhancing the image of a concern or its products or promoting favorable relations with the public at large (differentiated from “direct selling” to particular customers). Public relations include advertising and broad based customer relations including costs of memberships in civic and community organizations. Advertising means the use of media to promote the sale of products or services where SR has control over the medium and the content. Advertising includes, but is not limited to conventions (trade shows), exhibits, free goods/samples/souvenirs/SR logo clothing, and any form of advertising (newspapers, television, direct mailing, etc.). In addition to any media time and expense, advertising and public relations include the applicable portion of salaries, travel, and fringe benefits of employees engaged in these activities.

Allowable costs. Include those required by contract, costs associated with responding to media or public inquiries on company policies and activities (e.g. television interviews initiated by the television station), SR announcements furnished to the media such as

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awards of contracts/grants/cooperative agreements, promotions, new officers, employee recognition, retirements, layoffs, facility opening or closing, and forms or reports required by local, state, or federal law or regulation. Allowable costs also include the reasonable expenses for an “open house” and participation in community services (blood bank drives, charity drives, disaster assistance, savings bond drives, etc). For example, employee time and labor costs to participate in a Red Cross Blood Drive is allowable. However, contributions (monetary or property) to charities are unallowable.

## **Lobbying and political activity costs (FAR 31.205-22)**

Lobbying and political activities on behalf of SR are the responsibility of the Government Affairs Department. Only the Government Liaison Department is authorized to engage in, or on an as needed basis, to involve other SR managers and/or employees or outside consultants in lobbying or other political activity on behalf of SR. The Government Affairs Manager, in concert with the Controller, is responsible for documenting unallowable lobbying and differentiating it from allowable activities such as economic and business planning including consulting with various sources on government programs and expectations for government funding. SR managers and employees engaged in personal political activity should do so on personal time and should not represent that activity to be on behalf of SR; hence, personal political activity is not the subject of this SR policy.

Unallowable lobbying and political activity include costs associated with:

1. Attempts, while acting in the capacity of an SR manager, employee or consultant, to influence the outcome(s) of any Federal, State or local election, referendum, initiative, or similar procedure through in-kind or cash contributions, endorsements, publicity or activities.
2. Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of an election.
3. Any attempt to influence the introduction, enactment, or modification of any new or pending Federal, State or local legislation through communication with any member or employee of the Congress or State Legislature including (i) efforts to influence state or local officials to engage in similar activity with any government official or employee in connection with a decision to sign or to veto enrolled legislation or (ii) preparing, distributing or using publicity or propaganda or by urging members of the general public or any segment thereof to contribute to or participate in any mass demonstration, march, rally, fund raising drive, lobbying/letter writing/telephone campaign.
4. Legislative liaison including attendance at legislative sessions or hearings, gathering and analyzing the effect of legislation in support of or knowing preparation for an effort to engage in unallowable activities (NOTE: merely analyzing the effect of proposed or actual legislation is not an unallowable activity/cost).
5. Costs incurred in attempting to improperly influence an employee of the

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Executive Branch of the Federal Government to give consideration to or act regarding a regulatory or contract matter (NOTE: This activity is strictly prohibited by SR Standards of Conduct).

Allowable activities/costs include:

1. Providing technical or factual information on a topic directly related to the performance of a contract through hearing, testimony, statements or letters to Congress or state legislature, including staff members or committees in response to a documented request made by the recipient of the information.
2. Allowable costs exclude travel, lodging, per diem unless incurred for the purpose of offering testimony in a regularly scheduled Congressional hearing or in response to a written request from a Chairman or Ranking Minority Member of the Committee or Sub-committee
3. Lobbying to influence state or local legislation in order to directly reduce contract cost or to avoid material impairment of the contractor's authority to perform the contract (NOTE: SR should seek an advance agreement with the cognizant government contracting officer prior to incurring allowable lobbying costs for this activity).

To the extent SR incurs unallowable lobbying costs, such costs shall be separately recorded (from other unallowable costs). Additionally, SR is also required to complete an OMB Form LLL to annually report lobbying activity.

## **Direct Selling (FAR 31.205-38)**

Selling is a generic term encompassing all efforts to market SR services to the government, to government prime contractors or to commercial customers. Allowable direct selling are actions to induce a particular customer or agency to purchase products or services. Direct selling may involve person(s)-to-person(s) contact to include familiarization with SR products and services as well as familiarization with the current or projected requirements of the customer. Direct selling includes fact-finding and negotiations, discussions of terms and conditions, customer liaison, product demonstrations, facility tours, and technical media developed in support of direct selling. Bid and Proposal (B&P) costs (e.g. the effort to prepare a response to a government solicitation or a specific new business opportunity with a commercial company) are considered allowable direct selling costs; however, B&P costs are subject to specific requirements as delineated in the subparagraph Bid and Proposal (B&P) Costs.

Direct selling frequently involves business travel wherein the purpose of the business trip should clearly identify or describe the specific customer or customers who will be visited during the business trip. Although direct selling involves efforts to induce particular customers to purchase SR products or services, SR managers or employees engaged in direct selling must comply with SR Standards of Conduct (i.e. never offer or provide gratuities to government employees, and for obvious reasons, never offer or engage in

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bribes and kickbacks).

## **Economic Planning Costs (FAR 31.205-12)**

Allowable economic planning costs include general long-range/strategic management planning concerned with the future overall business development. These costs include “intelligence gathering” relative to future government programs, spending and funding as well as similar activity for future commercial business development. Economic planning can include the possibility for economic dislocations or fundamental alteration of the markets, e.g. declining domestic markets and/or significant reductions in government funding which cause SR to devote more business development effort on commercial and/or international markets. In and of itself, economic planning is an allowable activity and cost; however, allowable economic planning does not include changes in the corporate structure of SR (see discussion on Organizational Costs FAR 31.205-27).

## **Entertainment costs (FAR 31.205-14)**

Entertainment costs are unallowable costs regardless of the activity with which the costs are associated. For example, when engaged in direct selling, the costs for entertaining a potential client are unallowable notwithstanding the fact that direct selling costs are otherwise allowable costs. Entertainment costs include diversionary activities such as the cost to attend sporting events, memberships in social, dining or country clubs; as a matter of SR fiduciary responsibility and institute policy, SR does not reimburse entertainment costs except for client or potential client dinners and receptions associated with fund raising activities.

## **Bid and Proposal costs (FAR 31.205-18)**

Bid and Proposal (B&P) costs are considered allowable (direct selling) costs; however, the applicable regulation for B&P costs requires certain documentation including the establishment of specific B&P projects (work authorization codes) to record labor and non-labor costs for preparing an SR proposal in response to a government solicitation or a specific request for quote issued by a commercial customer. B&P projects/work authorization codes are controlled and issued in the same manner as direct project work authorization codes and managers or employees who would otherwise charge to a direct project would also charge to a B&P work authorization code. G&A employees (such as the Estimating Department) are full time charged to G&A and they do not charge to either direct projects or B&P projects.

## **Organizational costs (FAR 31.205-27)**



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Organizational costs, as defined herein, should be extremely limited in application to SR with the exception of fund raising; however, as a point of reference, unallowable organizational costs include:

1. Planning or executing the organization or reorganization of the corporate (Institute) structure including mergers and acquisitions. Teaming arrangements and joint ventures are not considered unallowable organization costs.
2. Resisting an acquisition or merger or a change in the controlling interests of the institute.
3. Raising capital or long-term debt and in the case of SR, fund raising activities.

## Directly Associated Unallowable Costs

Government contract regulations (FAR 31.201-6) also address directly associated unallowable costs using the “but for” rule. In this context, if an expense/cost would not have been incurred but for the incurrence of an unallowable cost, the expense/cost is also unallowable because of its direct association with the unallowable cost. Conversely, a cost which is merely coincidental to an unallowable cost, it does not meet the definition of a directly associated unallowable cost (e.g. a cost which would have been incurred regardless). In application to SR, managers (salaried) whose responsibilities include any of the unallowable activities described herein will identify any time spent on those activities and the labor costs will be considered unallowable. Hourly employees with any time spent on the unallowable activities described herein will identify time spent on those activities and the labor hours/costs will be considered unallowable. Salaried employees or managers with minimal/coincidental involvement on an unallowable activity will not record time as unallowable (the salary is an expense independent of the minimal/coincidental involvement with an unallowable activity).