

GAO

Testimony

Before the Subcommittee on Criminal Justice, Drug Policy
and Human Resources, Committee on Government
Reform, U.S. House of Representatives

For Release on Delivery
Expected at 10:00 a.m., EDT
Wednesday,
October 4, 2000

**ANTI-DRUG MEDIA
CAMPAIGN**

**Investigation of Actions
Taken Concerning Alleged
Excessive Contractor Cost**

Statement of Robert H. Hast,
Managing Director
Office of Special Investigations



G A O

Accountability * Integrity * Reliability

Mr. Chairman and Members of the Subcommittee:

We are here to discuss the investigation you asked us to undertake concerning the Office of the National Drug Control Policy's (ONDCP) contract with Ogilvy & Mather (Ogilvy), the lead media campaign contractor for the National Youth Anti-Drug Media Campaign. The Subcommittee received allegations that ONDCP had learned that Ogilvy was allegedly inflating its labor cost and, as a result, was over-billing the government for its services under the contract by falsifying time sheets. In response, ONDCP's Chief of the Media Branch hired a consultant to study the Ogilvy contract. This consultant reported that Ogilvy's labor costs were far above industry standards. Further, in April 2000, the Director of ONDCP, General Barry McCaffrey, U.S. Army, Retired, was informed about these allegations and the results of the consultant's study, which allegedly resulted in his decision that an external audit be conducted of the Ogilvy contract. However, according to the allegation, after the director met privately with the contractor's project director, the project director announced that Director McCaffrey was satisfied with the contract's costs and no external audit was to be conducted. In addition, the Subcommittee received information that Ogilvy allegedly had provided assistance to the director concerning matters not involving ONDCP and billed for this service under the contract.

Beginning in July 2000, we investigated the facts and circumstances surrounding actions taken by ONDCP after receiving the allegations that Ogilvy may have over-billed the government. We also investigated allegations that Ogilvy had provided services unrelated to the contract and submitted invoices under the contract for those services. We did not investigate the allegation that Ogilvy had over-billed the government under this contract; however, GAO is currently conducting a review and audit of ONDCP's contracting operations, which will include this issue.

In summary, we found that Director McCaffrey knew about the fraud allegations concerning Ogilvy's billing practices; and there is evidence that suggests he agreed with the need for "an external audit" of the contract. When we interviewed Director McCaffrey, he initially stated that he had no recollection of accusations of fraud related to the Ogilvy contract until we provided him a memorandum dated April 13, 2000, that showed he had been informed of the allegations. (See app. I.) He then told us that after receiving the April 13 memorandum and a report that questioned Ogilvy's costs, he traveled to New York City where he met with Ogilvy executives and told them that their costs were growing and that they needed to get them under control.

Regarding the allegation that he had ordered an “external audit,” Director McCaffrey stated that he had never ordered such an audit. He added that he had no knowledge of any written order for an external audit or an annotated memorandum with a handwritten comment stating the need for an external audit. He was then asked if he ever used the words “we need an external audit,” and he stated “no.” After Director McCaffrey reviewed the annotated April 13, 2000, memorandum, he acknowledged that the handwritten comments—which included the statement, “we need an external audit”—were his. He told us that although he admittedly wrote that phrase on the document, he never ordered an independent audit to be carried out on the Ogilvy contract but that it was his intention to conduct one at some point in time.

ONDCP’s general counsel informed us that after we interviewed Director McCaffrey, the director approved a closeout audit of all media campaign contracts, including the Ogilvy contract, in conjunction with the proposed transfer of contracting responsibilities to the Navy. In addition, Director McCaffrey has also approved an internal audit of the management practices of the Media Campaign.

With regard to the allegation of a private meeting, we found that Director McCaffrey had a private meeting with Ogilvy’s project director after internal ONDCP discussions of the need for an external audit. Director McCaffrey’s description of the meeting and the project director’s description vary as to whether excessive costs were discussed. However, we found no evidence that this meeting impacted any decision with respect to an external audit of the Ogilvy contract; and we were told by Director McCaffrey that he never ordered an audit.

Further, concerning the allegation that services were provided beyond those covered by the contract, we found that Ogilvy did not write congressional testimony for ONDCP employees. Ogilvy did provide ONDCP with figures, research, and documentation for use in responding to congressional inquiries and testimony. Ogilvy billed for this service under the contract. Ogilvy did not provide any services to Director McCaffrey involving his response to an article in the *New Yorker* magazine that was critical of Director McCaffrey’s actions when he was in the military. Director McCaffrey denied to us that anyone had assisted him in his response to this article. However, we found that an official of another ONDCP contractor, Fleishman-Hillard, spent 3 to 4 hours advising Director McCaffrey on this matter. This time was not charged to the ONDCP contract. We were told that this time was considered a personal favor to Director McCaffrey.

Chronology of the Ogilvy & Mather's Contract and Allegations of Over-billing

On December 28, 1998, the Department of Health and Human Services (HHS) awarded Ogilvy a cost plus fixed-fee contract for the advertising component of the National Youth Anti-Drug Media Campaign. HHS awarded the contract pursuant to an agreement with ONDCP.¹ The contract has an estimated value of over \$684 million over 5 years (1 base year plus 4 option years).

Alan Levitt, Chief of the Media Branch at ONDCP, stated that he has oversight responsibility for the Ogilvy contract. Mr. Levitt told us that prior to March 2000, Dan Merrick,² Ogilvy's then Co-Project Director on this contract, had informed him that Ogilvy was over-billing on the contract. Mr. Levitt stated that Mr. Merrick told him that he had previously raised concerns with Ogilvy's management about their billing practices.

Mr. Levitt stated that he immediately notified ONDCP's general counsel, Edward Jurith. Mr. Jurith told us that ONDCP was aware of billing irregularities with regard to Ogilvy's labor costs on the contract and that ONDCP's conclusion was that Ogilvy had billed some nonpayable charges. He was aware of a concern about a cost overrun but could not remember the exact figures quoted. He also was aware that these billing concerns had been brought to Director McCaffrey's attention and that Ogilvy was brought in to explain why its costs were higher than industry standards. Further, David Shull, Deputy General Counsel, told us that he was aware that Mr. Merrick had previously made negative statements regarding Ogilvy's billing practices.

Mr. Levitt also told us that in late March 2000, he contracted with Jane Twyon, Director of Worldwide Media Directors, an advertising media consultant, to review and analyze Ogilvy's compensation and manpower as it related to its billable labor costs.

Richard Pleffner, ONDCP's project officer and contracting officer's technical representative, told us that Ms. Twyon's initial findings reinforced his own concerns. As a result, Mr. Pleffner prepared a memorandum dated April 13, 2000, titled "Irregularities With Ogilvy Billing," and transmitted it, through the Chief of Staff, Janet Crist, to

¹ ONDCP entered into an agency reimbursable work agreement with HHS to provide administrative contract support for ONDCP's paid advertising efforts, including award of the contract.

² Mr. Merrick was the project director for Bates, U.S.A, which held the previous two contracts for the ONDCP media campaign.

Director McCaffrey. In the memorandum, Mr. Pleffner stated that Ms. Twyon had informed ONDCP that Ogilvy's proposed staffing levels were excessive,³ its labor mix was overly top heavy, and its salaries were extraordinarily high. In addition, Mr. Pleffner identified the issue discussed in this document as the following:

"Excessive billing irregularities under the Ogilvy contract have led to growing uncertainties with Ogilvy's management practices. These uncertainties were recently reinforced when a former Ogilvy employee relayed facts to ONDCP supporting suspicion of fraudulent conduct."

Mr. Pleffner told us that in March 2000, Mr. Merrick had contacted him and Jill Bartholomew, ONDCP's Deputy Director for National Media Campaign. According to Mr. Pleffner, Mr. Merrick told them that Ogilvy was falsifying billing records. In his April 13, 2000, memorandum, Mr. Pleffner stated the following:

"The fact that an outside source, particularly an executive level employee, corroborates these concerns, prompts me to formally document these issues in this communication."

In his April 13, 2000, memorandum, Mr. Pleffner stated that he had requested that HHS audit the base year (1999) of this contract. HHS agreed to request an audit only if ONDCP agreed to pay for it. He added that since ONDCP was considering changing contracting offices from HHS to the Department of the Navy,⁴ ONDCP decided to wait before initiating an audit. He also commented that he had discussed the need for an audit with the Navy acquisition staff, including the possibility of requesting an immediate audit of this contract.

We were provided a copy of the April 13, 2000, memorandum that contained handwritten comments attributed to Director McCaffrey. One comment refers to the last two sentences of the memorandum that read as follows:

"Since we are considering changing contracting offices ... we decided to wait before initiating an audit. I have discussed our audit needs with Navy acquisition staff and possibility of requesting an immediate audit of this contract."

³ The initial findings were that total compensation charges of over \$34 million were very high compared to the industry norm.

⁴ On Apr. 13, 2000, Director McCaffrey approved a recommendation that ONDCP negotiate dissolution with HHS and enter an agreement with the Navy to accept contract administration of the media campaign contracts from HHS.

The words “decided to wait before initiating an audit” are underlined. In addition, the words “immediate audit” are circled. The words “yes” and “We need an external audit” are handwritten at the bottom of the page under these highlighted remarks. In addition, the word “NO!” is written next to a statement by HHS's contracting office concerning its policy to perform an audit at the end of the contract—in this case, at the end of 5 years.

On April 26, 2000, Dan Schecter, Assistant Deputy Director, and Mr. Levitt issued a memorandum to the ONDCP Director through the chief of staff and deputy director. The subject of the memorandum was the Worldwide Media Directors’ report. The purpose of the memorandum was to outline Ms. Twyon’s background and to discuss a number of ongoing and serious concerns of the media campaign staff regarding Ogilvy nonmedia costs. The memorandum reports that the general counsel, the chief of staff, and Director McCaffrey discussed these concerns. Attachments to this memorandum included Ms. Twyon’s report overview, detailed report, and biographical data.

This memorandum also summarized Ms. Twyon’s finding that the cost to execute Ogilvy’s media plan far exceeds the industry norm. Specifically, Ms. Twyon found the costs associated with nonmedia activities and components to be dramatically higher than even the high end of what is standard industry practice. This is due mainly to the high number of people working on the ONDCP account, allocation of senior manpower, redundancy of manpower, and cost of manpower versus the industry norm. The memorandum also reported that there is no doubt that the average cost per “salary labor hours,” etc. across all components is far higher than the industry average. Ms. Twyon believes ONDCP could realize a savings of from \$8.5 million to \$14.8 million if Ogilvy’s staffing was realigned to reflect industry standards. Ms. Twyon’s analysis reflects that controls over costs were inadequate. The following recommendation is made in the memorandum submitted to the director:

“That the media campaign management team continue its analysis of possible recommendations to you. In the meantime, this should serve as justification for you to discuss with Ogilvy their non-media costs, which will be presented to you as part of a whole package on May 3.”

We were provided with a copy of the April 26, 2000, memorandum, which contained handwritten comments attributed to Director McCaffrey. One comment refers to the last paragraph under the heading “Recommendation,” regarding the media campaign management team continuing its analysis of possible recommendations to Director

McCaffrey. The words “continue its analysis of possible” are underlined with the word “yes” written above. The comment “to discuss” was circled, and the statement “Give me a letter to have C/S [chief of staff] send [to] O&M [Ogilvy & Mather]” was written in the bottom margin.

On April 27, 2000, Ms. Twyon provided an oral briefing to ONDCP management, which covered the material attached to the April 26, 2000, memorandum. Director McCaffrey was present for this briefing.

Ms. Shona Seifert, Senior Partner/Executive Group Director (Ogilvy) and Project Director for the ONDCP contract, stated that as a result of the consultant’s report, Ogilvy was asked to reduce its costs. Ms. Crist, on behalf of Director McCaffrey, sent a letter dated May 4, 2000, to Ogilvy in response to the Twyon report, asking it to reduce costs. Mr. Pleffner stated that this letter outlined issues (labor costs) raised by the Twyon report and that as a result of the letter, Ogilvy asked for a meeting to present its response.

Ms. Seifert stated that on May 23, 2000, there was a meeting held in Washington, D.C., which she attended, along with other management officials from Ogilvy. Mr. Pleffner stated that at this meeting, Ms. Seifert attacked the Twyon report and pointed out errors in it. He said that there were some discrepancies in the Twyon report but only because Ms. Twyon had not had all the information and figures available to her to begin with.

Ms. Seifert stated that sometime after the May 23, 2000, meeting, Ogilvy received another letter from Ms. Crist, which included a form to be filled out in order to have Ogilvy explain its labor costs.

Director McCaffrey's Response to the Allegations

Investigation of Allegation That Director McCaffrey Failed to Act on Concerns of Over-billing by Ogilvy & Mather

We interviewed Director McCaffrey on August 24, 2000. At that time, after being advised of the allegations in this case, he told us that Ogilvy is a very high profile outfit, ONDCP was very pleased with its work, and he has a very high confidence level in Ogilvy's integrity. He stated that to his knowledge, there were no accusations of fraudulent activity on the part of Ogilvy concerning labor costs. He added that the media campaign was a 5-year, billion-dollar effort in uncharted waters, which ONDCP is constantly testing. He stated that this is not to say that there aren't any problems associated with the advertising campaign but that it was the "crown jewel" in the government's program in fighting drugs.

Regarding the allegation that he had ordered an "external audit," Director McCaffrey stated that he had never ordered such an audit. He added that he had no knowledge of any written order for an external audit or an annotated memorandum with a handwritten comment stating the need for an external audit.⁵ He was then asked if he ever used the words "we need an external audit," and he stated "no." After Director McCaffrey reviewed the annotated April 13, 2000, memorandum previously discussed, he stated that he must have seen it, but that he didn't recall it, because he recognized that the handwriting, which included the statement "we need an external audit," was his. He told us that although he admittedly wrote the phrase "we need an external audit" on the document, he never ordered an independent audit to be carried out on the Ogilvy contract. He added that it was his intention to conduct one at some point in time. He also stated that he was embarrassed that he had not remembered the memorandum that we gave him.

Director McCaffrey told us that the statement attributed to Ms. Seifert—that an audit was not going to be conducted on the Ogilvy contract—never occurred. He added that Ms. Seifert would never say that because he had never ordered an external audit on the Ogilvy contract. Although he

⁵ Two days prior to our meeting with Director McCaffrey, we interviewed ONDCP's general counsel, deputy general counsel, and assistant general counsel and raised the issue of a memorandum annotated by Director McCaffrey discussing the need for an external audit. All individuals denied knowledge of the existence of such a memorandum.

recalled the report prepared by Ms. Twyon, he had no recollection of any accusations by anyone in ONDCP regarding fraudulent activity on the part of Ogilvy. He stated that this report was in response to questions raised about excessive costs of the contract. After further questioning, Director McCaffrey stated that he was aware that Mr. Merrick was alleging fraud with the media campaign contract.

Director McCaffrey told us that after Ms. Twyon's report was reviewed, he traveled to New York City and had a meeting at Ogilvy's headquarters with Ogilvy executives, including Ms. Seifert. He stated that he had told them that their costs were growing and that they needed to get them under control.

Director McCaffrey stated that he almost never sees anybody, including Ms. Seifert, alone; however, he recalled only two occasions, one of which was sometime after his trip to New York City, on which he saw Ms. Seifert alone in his office. At this meeting, Director McCaffrey stated that Ms. Seifert had expressed dismay at any problems about excessive costs in the media campaign contract and said that she would rather "throw herself out the window" than lose the contract.

Ms. Seifert told us⁶ that on June 5, 2000, she had a private meeting with Director McCaffrey for approximately 20 minutes. She also stated that she had met with Director McCaffrey alone approximately 4 to 5 times in the past 2 years and that on other occasions she had met with Director McCaffrey when someone else was present. In addition, she has had many telephone conversations with Director McCaffrey. Ms. Seifert stated that the subject of the June 5, 2000, meeting with Director McCaffrey was to discuss contract priorities. She said that she was concerned about whether any problems could develop in the contract at the end of the year. She told us that over-billing was never a subject discussed at this meeting, allegations of fraud were never mentioned, and Director McCaffrey never mentioned that he thought an audit was necessary. She added that at this meeting there was no mention of labor costs or reducing costs associated with the contract. Ms. Seifert also denied that she had stated that she would jump out of the window rather than lose this contract.

Mr. Pleffner told us that after Ms. Seifert left the June 5, 2000, meeting with Director McCaffrey, she met with Mr. Levitt and Ms. Bartholomew where, according to them, she announced that Director McCaffrey was satisfied with the contract costs and that the Ogilvy contract would continue.

⁶ We interviewed Ms. Seifert on Sept. 6, 2000.

Mr. Levitt and Ms. Bartholomew deny that this conversation occurred. Ms. Seifert denies making this statement.

Director McCaffrey stated that the second meeting was on August 18, 2000, when Ms. Seifert presented a new proposal to control cost growth in the contract.

On August 25, 2000, after we interviewed Director McCaffrey, Mr. Jurith, ONDCP General Counsel, provided a written response to the allegations raised at the meeting. Mr. Jurith stated in this letter,

“Although the Director did signal his agreement in a memorandum which recommended that DCAA [Defense Contract Audit Agency] conduct an external audit of Ogilvy, the memorandum recommended that the audit should be delayed until after contract administration functions transferred from HHS – a condition which ONDCP is in the process of completing. Director McCaffrey never ‘started’ or ‘stopped’ an audit process before or after a meeting with Shona Seifert.”

Mr. Jurith further wrote,

“ONDCP has questioned a number of Ogilvy billings and specifically questioned the amount of Ogilvy’s salaries. ONDCP advised the HHS contracting officer of its concerns, and requested an interim audit. HHS refused to fund the audit. In reaction, ONDCP: (1) looked for a new contract administrator; (2) hired an independent consultant to examine Ogilvy’s compensation practices; (3) demanded a formal explanation from Ogilvy; and (4) advised the HHS Chief of Staff of its findings.”

In addition, Mr. Jurith wrote,

“The Director has approved a recommendation by the Office of General Counsel that ONDCP conduct an internal audit of the management practices of the Media Campaign. The purpose of the internal audit is to determine where ONDCP has excelled, and to identify those areas that need improvement. The Director has approved a recommendation by the Office of General Counsel that HHS conduct a close-out audit of all media campaign contractors in conjunction with the proposed transfer of contracting responsibility to the Navy.”

Investigation of Allegations That Ogilvy & Mather Provided Services Not Covered by the Contract and Billed the Contract for Those Services

Congressional Testimony

With respect to the allegation that Ogilvy prepared congressional testimony for Director McCaffrey and Mr. Levitt and billed for this service even though the service was not included under the contract, Director McCaffrey stated that neither Ogilvy nor any other outside contractor ever wrote congressional testimony for any employee of ONDCP. He further stated that it is common practice to ask contractors for input into congressional inquiries and testimony but that these requests are for figures, research, and documentation to support the testimony. These contractors, in turn, bill ONDCP for their services.

Ms. Seifert told us that Ogilvy never directly provided written testimony for congressional inquiries. It did provide figures to ONDCP and helped prepare responses specifically asked of Ogilvy at congressional hearings. Ogilvy regularly provides facts, figures, and research material to ONDCP in response to requests for information from ONDCP resulting from outside inquiries. She stated that, to her knowledge, these responses go through layers of review at ONDCP and are rewritten by members of the congressional liaison staff at ONDCP before they are issued. She told us that at no time did Ogilvy ever draft congressional testimony for ONDCP's use. She said that Ogilvy was never asked to prepare testimony for Director McCaffrey or Mr. Levitt. She stated that Ogilvy bills ONDCP for any time spent on preparing facts and figures or researching material pertinent to the contract, since the time spent preparing the information relates to Ogilvy's handling of the media campaign.

The *New Yorker* Article

With respect to the allegation that Ogilvy had helped shape Director McCaffrey's response to a *New Yorker* magazine article⁷ and billed for this service, Director McCaffrey stated that neither Ogilvy nor anyone else outside of ONDCP had done any work for him whatsoever in response to criticisms brought forth in the *New Yorker* article. Nothing was ever billed to the ONDCP media campaign contract by Ogilvy or anyone else as a result of concerns raised in the article. Ms. Seifert stated that neither she nor any other Ogilvy employee ever supplied material to Director McCaffrey for him to respond to this article. She said that she did write a personal note to Director McCaffrey expressing her distaste for the article and offering her personal assurances that she knew that the statements accusing Director McCaffrey of any wrongdoing were not true.

Mr. Pleffner stated that the Fleishman-Hillard public relations firm helped Director McCaffrey respond to criticisms raised in the *New Yorker* article. He stated that Paul Johnson, President of Fleishman-Hillard, told Fleishman-Hillard employees that he was helping Director McCaffrey shape responses to the article and that he had referred Director McCaffrey to a libel attorney. Mr. Pleffner added that he did not know whether Fleishman-Hillard had billed for these services under its ONDCP contract.

On May 16, 2000, Messrs. Schechter and Levitt issued a memorandum to Director McCaffrey, through the chief of staff and the deputy director. The memorandum involved topics discussed for an upcoming meeting with Paul Johnson from Fleishman-Hillard. The memorandum included a statement that Mr. Johnson let it be known to Fleishman-Hillard staff that he had been helping Director McCaffrey with the *New Yorker* article and had referred Director McCaffrey to a libel attorney.

Mr. Johnson told us that he is Regional President & Senior Partner of Fleishman-Hillard, a public relations firm, and that he is the project director for the media campaign contract that his company has with ONDCP. He stated that Fleishman-Hillard basically handles public relations matters for ONDCP concerning the advertising media campaign. He was aware of the article that appeared in the *New Yorker* magazine. He stated that Director McCaffrey called him about it and was very concerned about the article. He added that Director McCaffrey's concern was not so much for personal reasons but rather for the effect it would have on the war against drugs. He advised Director McCaffrey to seek his

⁷ An article by Seymour Hersh appeared in the May 22, 2000, issue of *The New Yorker*. The article was critical of Director McCaffrey's actions during the Persian Gulf war.

own legal counsel because of the accusations made in the article and provided him with the name of a law firm. He subsequently learned that Director McCaffrey did engage a libel attorney from the law firm he had recommended.

In addition, Mr. Johnson stated that Fleishman-Hillard regularly responded to inquiries from ONDCP to provide information, statistics, or responses to congressional inquiries. He stated that he provided information to Director McCaffrey and to ONDCP on how to respond to the *New Yorker* article. He stated that to his knowledge, all information that Fleishman-Hillard provides to ONDCP goes through many layers of review before ONDCP crafts a final response to be presented to any outside inquiry. He stated that at most, he spent 3 to 4 hours on the *New Yorker* magazine matter for Director McCaffrey and that Fleishman-Hillard did not bill ONDCP for this time. He told us that he did this as a personal favor to Director McCaffrey.

Contacts and Acknowledgements

For information about this testimony, please contact Robert H. Hast, Managing Director, Office of Special Investigations, on (202) 512-7455. Individuals making key contributions to this testimony included John Cooney and Patrick Sullivan.

This concludes my prepared statement. I will be happy to respond to any questions you or other Members of the Subcommittee may have.

April 13, 2000, Memorandum With Director McCaffrey's Handwritten Comments



EXECUTIVE OFFICE OF THE PRESIDENT
 OFFICE OF NATIONAL DRUG CONTROL POLICY
 Washington, D. C. 20503
 April 13, 2000

BRM 23896

CLOSE HOLD

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INFORMATION

MEMORANDUM FOR THE DIRECTOR

THROUGH: CHIEF OF STAFF
 EDWARD JURITH

FROM: RICHARD PLEFFNER, PROJECT OFFICER

SUBJECT: Irregularities With Ogilvy Billing

27 APR 2000
4/27
4/13/00

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- Discuss
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on this ASAO

ISSUE: Excessive billing irregularities under the Ogilvy contract have led to growing uncertainties with Ogilvy's management practices. These uncertainties were recently reinforced when a former Ogilvy employee relayed facts to ONDCP supporting suspicions of fraudulent conduct.

BACKGROUND: Ogilvy's first invoice for labor costs was submitted 9-1/2 months into the contract term. Mr. Diorio, Ogilvy contract manager, informed me that the invoice included all labor costs incurred during the period January 4, 1999 - June 30, 1999. Subsequently, several months later, Ogilvy submitted two additional labor bills for this same period. On these invoices, Ogilvy increased its claimed effort by 27%, the number of people working on the contract by 33% (50 people, in addition to the original 159 employees) and cost by 33% - \$964,000. When asked for an explanation for the increase, Ogilvy financial/contract personnel stated that these additional 50 individuals working on the account had simply failed to submit time sheets charging the ONDCP contract.

The following chart summarizes the changes from the follow-on invoices.

	Invoice No 9 Dtd 9/3/99	Invoice No 14 Dtd 11/26/99	Invoice No 16 Dtd 12/23/99	Total	% Change
Invoiced Hrs	30,979	+4,626	+3,811	39,416	+27%
Invoiced Cost	\$2,907,964	+\$759,017	+\$205,034	\$3,872,015	+33%
# of Employees	159	+25	+25	210	+33%

Our review of time sheets led to increasing concerns. Many of the time sheets for invoices 14 and 16 were illegible, contained an inordinate number of changes and alterations, almost always increasing the time charged to the ONDCP contract. Ogilvy's increased staffing in the early phase of the contract presented additional concerns - the contract effective date was January 4, 1999, yet Ogilvy did not take over complete management of the account until July 1, 1999. The first few months were devoted to transition of activities from Bates, and Ogilvy's "learning" the

Appendix I
April 13, 2000, Memorandum With Director
McCaffrey's Handwritten Comments

media campaign. The concerns I first raised after receiving invoice no. 9 (e.g., billing for pro bono, excessive salaries, number of stated hours, unallowable compensation, and erroneous computation methodology that benefits Ogilvy) escalated after receiving invoice no. 14, and again after receipt of invoice 16.

There were other issues that increased my general discomfort with Ogilvy's bills. To date, they have only billed for 58% of the estimated value of the first year of the contract. The first bill to include travel costs dating back to January of 1999 was received January 27, 2000. There have been roughly \$5.8 million of questioned costs, of which \$2.4 million have been recommended for disallowance. With few exceptions, Ogilvy has not re-invoiced for questioned/disallowed costs -- which raises questions about their management practices.

These concerns have now been reinforced. Although she does not have her final report, our advertising media consultant, Ms. Tyson, has provided initial findings stating Ogilvy's proposed staffing levels are extremely excessive, labor mix is overly top heavy, and that salaries are extraordinarily high. Additionally, on March 28, 2000, a former Ogilvy employee (who has asked to remain anonymous at this time because of fear of reprisal), who served as a senior manager on this contract, contacted Jill Bartholomew and myself with the following concerns and allegations. He stated that last summer, Bill Gray, President of Ogilvy N.Y., held a meeting with the most senior account staff and complained about the lack of revenue with this contract. This former senior executive manager stated that this was the only financial meeting in which he participated. In point of fact, he stated he was uninvited to other financial meetings. He indicated that this seemed highly irregular. This person alleged that time sheets were altered to increase the number of hours worked against the ONDCP contract; on the follow-up billings, additional people were charged who had not worked on the contract during the billing period; Shona Seifert and other account management personnel managed five or six other accounts in addition to the ONDCP contract while charging most of their time to this contract (e.g., Shona Seifert is charged over 90% against the ONDCP contract).

While it may not be unusual for a terminated employee to bring forth allegations against their former employer, in this case they corroborate pre-existing concerns. I have never shared any of my concerns arising from apparent billing irregularities with anyone outside of ONDCP. The fact that an outside source, particularly an executive level employee, corroborates these concerns, prompts me to formally document these issues in this communication.

I asked the contracting office (HHS) for a copy of the acceptability determination of Ogilvy's accounting system, but received only a statement from HHS that "...they use generally accepted accounting principles." I also requested an audit of the base year of the contract. The contracting office's initial response was that their policy was to perform an audit only at the end of the contract -- in this case, at the end of five years. When I explained that we are talking about an \$800 million contract and relayed the billing issues, HHS elevated the issue to their management, who in turn agreed to request an audit if we agreed to pay for it (in addition to the \$352 thousand dollars we have already paid for administration of this contract alone). Since we are considering changing contracting offices (from HHS to Navy -- blue folder is on its way), we decided to wait before initiating an audit. I have discussed our audit needs with Navy acquisition staff and possibility of requesting an immediate audit of this contract.

Cc: Alan Levitt

no!
yes. We need an external audit.

(600739)

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