

**ANTI-DRUG MEDIA CAMPAIGN: PROGRAM AND
CONTRACT ACCOUNTABILITY AND ADMINIS-
TRATION**

HEARING

BEFORE THE

SUBCOMMITTEE ON CRIMINAL JUSTICE,
DRUG POLICY, AND HUMAN RESOURCES

OF THE

**COMMITTEE ON
GOVERNMENT REFORM**

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

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**ANTI-DRUG MEDIA CAMPAIGN: PROGRAM
AND CONTRACT ACCOUNTABILITY AND AD-
MINISTRATION**

WEDNESDAY, OCTOBER 4, 2000

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY,
AND HUMAN RESOURCES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:09 a.m., in room 2154, Rayburn House Office Building, Hon. John L. Mica (chairman of the subcommittee) presiding.

Present: Representatives Mica, Gilman, Barr, Burton, Ose, Mink, Kucinich, and Cummings.

Staff present: Sharon Pinkerton, staff director and chief counsel; Steve Dillingham, special counsel; Carson Nightwine, investigator; Michael Garcia, senior technology advisor; Chris Morrow, intern; Sarah Despres, minority counsel; and Jean Gosa, minority assistant clerk.

Mr. MICA. Good morning. I would like to call this hearing of the House Subcommittee on Criminal Justice, Drug Policy, and Human Resources to order.

We will be joined by other Members during the hearing. But the order of business today will be, first, I will start with an opening statement and then we will recognize other Members for their opening statements. I am pleased to welcome the other Members and, as I said, I will recognize them after I have given my opening statement.

The topic of today's hearing is the National Youth Anti-Drug Media Campaign, program and contract accountability and administration. We will be reviewing some problems we have had with the administration of the National Anti-Drug Media Campaign.

Today's hearing will focus on the administration and financial management of our billion dollar National Anti-Narcotics Media Campaign. This program was funded by Congress in 1997 to deal with the dramatic increase in illegal narcotic abuse experienced since 1993. While the anti-drug media campaign began with some self-admitted mishandling by the Office of National Drug Control Policy [ONDCP], Congress and our oversight committee have supported the goal of this much needed Federal effort to better educate the public and our young people about the serious consequences of drug abuse.

It is important that I remind everyone that I have been a strong supporter of an effective public media campaign to help fight drug abuse and misuse across this Nation. This anti-drug program is far too important for even \$1 to be wasted or misspent. We cannot allow recent drug use and human destruction trends to continue.

Administration officials lately have attempted to put a happy face on an increasingly sad situation. Unfortunately, the Office of National Drug Control Policy has set a goal of reducing overall drug use to 3 percent by the year 2002. However, information from ONDCP indicates that overall drug use actually has increased from 6.4 percent in 1997 to 7 percent in 1999. That is important because, again, their goal was, and their objective was, in fact to get overall drug use down to 3 percent by 2002 and, unfortunately, it has risen in the last 3 years to 7 percent, going in the wrong direction overall. The age at which our youth first use heroin has dropped from the mid-20's to age 17. Additionally, methamphetamine, "ecstasy," and "designer drugs" use has skyrocketed both for youths and adults. Sadly, our Nation now experiences more drug-induced deaths than murders. We released at a hearing just a few weeks ago the fact that 16,926 Americans died in our last recorded year, which I believe was 1998, of drug-induced deaths as opposed to murders, which was a lower figure for the first time since we have been collecting those statistics.

Accordingly, I have worked with our leadership in Congress and with ONDCP and with other officials to support efforts to reduce the demand for drugs. That is very important that we address demand.

With that cooperative spirit, we withheld formal review of the ONDCP media campaign by our subcommittee until October 14, 1999, more than a year into the program's operation.

At our October 14, 1999 hearing and after a preliminary review of the administration of the anti-drug media campaign, some concerns were raised relating to contract mismanagement, financial oversight of the billion dollar program, the adequacy of the match donation as required by law, and effectiveness of the media message that had been produced to date. One area of particular concern was oversight of a growing number of contracts, ONDCP had issued somewhere in the neighborhood I believe of 19 contracts, but the growing number of contracts and subcontracts for handling various tasks of the program and the management and administration of those contracts and oversight of those contracts.

In my opening statement last October, a year ago, I advised, and I will quote from my opening statement at that hearing 1 year ago, "I see a very tangled web of contracts that appears overly complicated, expensive, bureaucratic and untested." The subcommittee expressed concern about the program management effectiveness and instances of contract flipping, where we found in the information that ONDCP had provided us, in fact, I think it was 15 boxes that we went through and they provided us that background, but we found that there was in fact the practice of contract flipping, where contracts were subcontracted, no work done, but payment was made to the original contractor. We raised this as a concern.

Several months ago the subcommittee was informed by the Office of Special Investigation of the General Accounting Office [GAO],

about issues associated with the largest ONDCP contract. This is a pretty substantial contract, a 5-year contract which totals up to \$175 million annually, certainly the lion's share of our billion dollar campaign, and that is actually a multibillion campaign when we take into consideration that we also require a match. This large contract's primary purpose was to buy media time. I might say that issues were identified by multiple anonymous sources to the General Accounting Office, citing problems of financial mismanagement, over-billing, possible contract fraud, and negligent administration of contract funds for the billion dollar ad campaign.

I spoke to Barry McCaffrey, our Director of ONDCP, this morning. He had sent me a letter, and I would like that letter to be made part of the record, it is a letter of September 21, which begins "Members of your staff were apparently instrumental in assigning two special agents from the General Accounting Office's Office of Special Investigations to examine ONDCP, the HHS Program Support Center, and our primary youth anti-drug media campaign contractors." Without objection, I would like this to be made a part of the record.

Mrs. MINK. No objection.

[The information referred to follows:]



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

September 21, 2000

The Honorable John L. Mica
Chairman, Committee of Government Reform and Oversight,
Subcommittee on Criminal Justice, Drug Policy and Human Resources
United States House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Members of your staff were apparently instrumental in assigning two special agents from the General Accounting Office's Office of Special Investigations (GAO OSI) to examine ONDCP, the HHS Program Support Center and our primary youth anti-drug media campaign contractors. We were, of course, glad to cooperate with OSI in an open and candid fashion. However, my legal staff has questioned apparent misperceptions and lack of objectivity during the course of this inquiry. We have addressed our concerns, in writing, to legal counsel within the GAO.

We understand that the investigation is based on allegations, and, therefore, there is a responsibility to make a reasonable inquiry to determine whether the allegations have any merit. However, the manner of inquiry seems to imply motives that may be biased rather than analytical.

The National Youth Anti-Drug Media Campaign is the most aggressive and successful, science-based, public health campaign ever undertaken by the Federal Government. This effort brings together the talents and energies of ONDCP, the National Institute on Drug Abuse (NIDA), and competitively selected, highly ethical media firms. We work in close teamwork with the absolutely brilliant leadership of Mr. Jim Burke and the Partnership For A Drug-Free America (PDFA). This drug prevention campaign is having dramatic results in reducing drug use among its target population – America's 'tweens and teens. In our judgement, the entire effort has been carefully managed in strict accordance with applicable law and the Federal Acquisition Regulations. It has been strongly supported by a bi-partisan majority in the House and Senate.

The 1999 National Household Survey on Drug Abuse, which was released on August 31, 2000, indicated:

- ◆ Monthly drug use by 12-17 year olds dropped by 21% over a two-year period (1997-1999).
- ◆ Marijuana use by 12-17 year olds dropped 26% during 1997-1999.

Other data showing the success of the campaign, include:

- ◆ The Parent's Resource Institute for Drug Education (PRIDE) Survey reports that between 1996 and 1999 annual use of any illicit drug declined by a third (34%) among junior high school students and 12% among senior high school students.

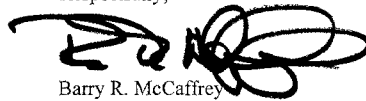
- ◆ The percentage of 13 to 18 year olds strongly agreeing with the statement “Kids who are really cool don’t use drugs” increased from 35% in 1998 to 40 % in 1999. (Partnership for a Drug-Free America, 1999 Partnership Attitude Tracking Study.)
- ◆ The number of young people reporting that their schools were drug-free increased from 31% in 1998 to 44 % in 1999. (Center on Substance Abuse and Addiction, 1999 Back to School Survey.)

As a part of our efforts to create reduced drug use by American adolescents, ONDCP has worked diligently and ethically to meet the statutory mandates enacted by Congress for the media campaign, 21 U.S.C. § 1801, *et. seq.* It is an extremely well-managed program. Another GAO inquiry recently found that, “ONDCP has met most mandates...” regarding Media Campaign funds and program guidelines. (*See, Anti-Drug Media Campaign*, GGD/HEHS-00-153.) This very professional GAO study conducted for over a year, also found that drug abuse data, focus group and community key informant input support the conclusion that the campaign is having positive effects. Clearly, the campaign’s effectiveness and visibility has now generated attacks from the drug legalization community and some media outlets like Salon.com. Notwithstanding efforts to undermine this superbly conceived and orchestrated campaign, ONDCP remains committed to continuing this Congressionally authorized drug prevention effort with aggressive implementation and creative development.

We are cooperatively opening our books and management procedures to a new GAO management review of the campaign. ONDCP staff has informed the current auditors from GAO’s General Government Division that we continue to take reasonable and prudent steps to assess the allowability, allocability and reasonableness of claims for payment made by our contractors. However, all of us are under a clear obligation to assure that our actions do not unnecessarily diminish the government’s ability to retain and benefit from a partnership with the media industry leading corporations -- nor unfairly tarnish their integrity with unsubstantiated allegations.

We hope that you share our belief that a proper GAO management review is the appropriate way to address these various issues. Anything less professional in approach or timing could be seen as opportunistic and political, and not in the best interest of the American people. Furthermore, we must guard against unintended, adverse effects on our drug prevention campaign. Should you wish to personally discuss this or any other matter, please feel free to call.

Respectfully,



Barry R. McCaffrey
Director

Mr. MICA. But, again, I spoke to General McCaffrey this morning. Our staff did not sick anyone on anyone. Information came to us from multiple sources and to GAO about some very serious allegations relating to the ad program and its administration and financing. So, again, I am sorry that this has had to come before the subcommittee, but it is an oversight responsibility of the subcommittee. Issues, as I said, were identified by the General Accounting Office, citing problems of financial mismanagement, over-billing, possible contract fraud, and I will say possible, we have not identified that to date, we will find out more about that today, and negligent administration of contract funds for the billion dollar ad campaign that certainly should raise legitimate concerns by every member of this panel.

Based on the information provided to me by GAO investigators, I believe that these very serious allegations should have been properly reviewed by GAO. I also resent recent press statements that have attempted to put a political spin on the GAO investigation or this subcommittee's legitimate oversight responsibility. The charges of possible over-billing, contract fraud, and financial mismanagement are most serious and require attention and concern of and oversight of our oversight subcommittee, and certainly of the General Accounting Office when allegations are presented to that agency.

Among the concerns that have arisen are some of the following: Why did the ONDCP contract officers raise serious concerns about the costs being charged under the contract? Why has ONDCP refused to pay millions of dollars in submitted bills? And we have read some headlines over the weekend that they are now refusing to pay some of these bills.

Why did ONDCP officials express cost concerns to the Department of HHS contract officers who were responsible and who had oversight responsibilities? We must determine that.

Was contract administration management within ONDCP and arrangements within HHS sufficient to oversee this complex contract? The HHS contract officer and the assigned contract specialist were employees of the HHS Program Service Center. The Center is paid to help administer these contracts. The assigned specialist reportedly had a caseload of almost 60 contracts.

Why didn't ONDCP push for an immediate audit? In April, the ONDCP consultant identified cost issues, with some cost estimates at over 200 percent of industry standard. And additionally, we have an internal memo that was provided to us dated April 13 that raised serious questions about the conduct of the billing and over-payments, some very legitimate and well-documented concerns. Why were these not investigated?

Finally, are appropriate safeguards in place or underway for effective monitoring and controlling costs? What steps have been taken by ONDCP to deal with what obviously is a situation that needs some attention?

The basic issues we have before us today are simple. Has ONDCP been negligent in its administration of the contract? Is the public being gouged? And what is being done to remedy the situation and prevent future problems? Today, we are not evaluating

whether the media campaign is having its anticipated impacts. That will be a topic for future discussion and for future oversight.

We all hope that the media campaign's demand reduction efforts are a success. Everyone on this panel wants this program to be a success. Congress authorized the program. Congress funded the program. And with the tragic deaths we are seeing across the Nation and in so many of our districts and the heartbreak this brings to so many families, we have a responsibility to make certain this program is a success. It is important to hold managers accountable to ensure investment, and this is an investment, to ensure investment integrity, and to achieve an absolute maximum return on taxpayer dollars that are being put into this important program. That is why we are having the hearing today.

It does interest me that, according to the Washington Post, the ONDCP program manager who will be testifying before us today was quoted as saying, and this is from the Washington Post dated September 30, page A-2, "There is absolutely no over-billing." I find the program manager's conclusion perplexing and bothersome, as an audit has just been done, an audit that really will determine I think what has been going on here. After all, it is his own contracting officer, the person who actually reviews the bills, who presented the issues to his senior management and requested an audit many months ago. I look forward to learning how these statements, memoranda, and actions can be reconciled.

Today, we need to determine whether ONDCP's media campaign management has both the talent and objectivity to oversee effectively the Nation's largest public media campaign ever undertaken and that the contract with one of the largest advertising companies in the United States is properly managed.

There is not a person on this panel who would not like to see our national media campaign work and be successful. By the same token, we have a responsibility both as overseers of this program and as stewards and trustees of hard earned taxpayer dollars to see that this Government sponsored billion dollar campaign is properly administered.

Unfortunately, rather than to cooperate to resolve financial mismanagement problems, correct administrative negligence, and assist in proper investigation of possible criminal misconduct, some in the administration have attempted to thwart the congressional hearing process, attack the GAO investigative staff, and block the proper review of very significant problems of a very important Federal program. I believe that is very unfortunate.

Today's hearing will focus on the management, financial administration, and current problems facing our national anti-drug media campaign programs. We will hear from the General Accounting Office, we will also hear from ONDCP, and we will hear from its consultant. Hopefully this hearing can help us identify specific areas that need our attention and that will improve both the effectiveness and performance of our anti-drug media campaign.

[The prepared statement of Hon. John L. Mica follows:]

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Opening Statement
Congressman John L. Mica
"National Youth Anti-Drug Media Campaign:
Contract Issues and Accountability"

House Subcommittee on Criminal Justice, Drug Policy and Human Resources
Rayburn House Office Building -- Hearing Room 2154
October 4, 2000

Today's hearing will focus on the administration and financial management of our billion dollar National Anti-Narcotics Media Campaign. This program was funded in 1997 by Congress to deal with the dramatic increase in illegal narcotics abuse experienced since 1993 (the beginning of the Clinton-Gore Administration). While the National Anti-Drug Media Campaign began with some self-admitted mishandling by the Office of National Drug Control (ONDCP), Congress and our oversight Subcommittee have supported the goal of this much needed federal effort to better educate the public and our young people about the serious consequences of drug abuse.

It is important that I remind everyone that I have been a strong supporter of an effective public media campaign to help fight drug use across this nation. This anti-drug program is far too important for even one dollar to be wasted or misspent. We cannot allow recent drug use and human destruction trends to continue. Administration officials have attempted to put a happy face on an increasingly sad situation. Unfortunately, although ONDCP has set a goal of reducing overall drug use to 3% by year 2002, information from ONDCP indicates that **overall drug use actually has increased from 6.4% in 1997 to 7% in 1999**. The age at which our youth first use heroin has dropped to age 17. Additionally, methamphetamine, "ecstasy" and "designer drugs" use has skyrocketed for both youth and adults. Sadly, **this nation now experiences more drug-induced deaths than murders**.

Accordingly, I have worked with our leadership in Congress to support efforts to reduce the demand for drugs.

With that cooperative spirit, we withheld formal review of the ONDCP Media Campaign by our Subcommittee until October 14, 1999, more than a year into the programs operation.

At our October 14, 1999 hearing and after a preliminary review of the administration of the Anti-Drug Media Campaign, concerns were raised relating to contract management, financial oversight of the billion dollar program, adequacy of the match donation required by law, and effectiveness of the media message to date. One area of particular concern was oversight of a growing number of contracts and sub-contracts for handling various tasks of the program.

In my opening statement last October I advised: **"...I see a very tangled web of contracts that appears overly complicated, expensive, bureaucratic and untested."** (Mica Opening Statement October 14, 1999). The subcommittee expressed concern about program management effectiveness and instances of contract flipping, where contracts were sub-contracted, no work done, but payments made to the original contractor.

Several months ago the subcommittee was informed by the Office of Special Investigation of the General Accounting Office (GAO) about issues associated with the largest ONDCP contract. The five-year contract totals up to \$175 million annually. The contract's primary purpose is to buy media time. Issues were identified by multiple anonymous sources to the General Accounting Office, citing problems of financial mismanagement, overbilling, possible contract fraud, and negligent administration of contract funds for the billion dollar ad campaign.

Based on the information provided to me by GAO investigators, I believed that these very serious allegations should be properly reviewed by GAO. (Incidentally, this is contrary to comments made to me by the Director of ONDCP in his letter that states that my staff set GAO investigators on that agency; and also contrary to recent press statements that attempt to put a political spin on the GAO investigation.)

The charges of possible overbilling, contract fraud, and financial mismanagement are most serious and require the attention and concern of our oversight Subcommittee, and certainly of the General Accounting Office.

Among the concerns that have arisen are the following:

- Why did ONDCP contract officers raise serious concerns with the costs being charged under the contract? **Why has ONDCP refused to pay millions of dollars in submitted bills?**
- **Why did ONDCP officials express cost concerns to Department of Health and Human Services (HHS) contract officers** who also had contract oversight responsibilities?
- **Was contract administration management within ONDCP and arrangements with HHS sufficient** to oversee this complex contract? The HHS contract officer and the assigned contract specialist were employees of the HHS Program Service Center. The Center is paid to help administer contracts. The assigned specialist reportedly had a caseload of almost 60 contracts.
- **Why didn't ONDCP push for an immediate audit? In April, the ONDCP consultant identified significant cost issues, with some costs estimated at over 200% of industry standard.**
- **Finally, are appropriate safeguards in place or underway for effectively monitoring and controlling costs?**

The basic issues we have before us today are: Has ONDCP been negligent in its administration of the contract? Is the public being gouged? And, **what is being done to remedy the situation and prevent future problems?** Today, we are not evaluating whether the Media Campaign is having its anticipated impacts. That will be a topic for future discussions and oversight.

We all hope that the Media Campaign's demand reduction efforts are a success, and that's why we've invested our tax dollars. As with any investment, however, it is important to hold managers accountable, to ensure investment integrity, and to achieve maximum return on investment. That is why we are having this hearing today.

It does interest me that, according to the *WashingtonPost*, the ONDCP program manager who will be testifying today was quoted as saying: **"There is absolutely no overbilling."** (Washington Post, Sept. 30, 2000; p. A2) I find the program manager's conclusion perplexing and bothersome, as an audit has just begun. After all, it was his own contracting officer, the

person who actually reviews the bills, who presented the issues to his senior management and requested an audit. I look forward to learning how these statements, memoranda and actions can be reconciled.

Today, we need to determine whether ONDCP Media Campaign management has the talent and objectivity to oversee effectively the nation's largest public media campaign and its contract with one of the world's largest advertising companies.

There is not a person on this panel who would not like to see our National Media Anti-Drug Campaign work and be successful. By the same token, we have a responsibility both as overseers of the program and as stewards and trustees of hard earned taxpayer dollars to see that this government sponsored billion dollar campaign is properly administered.

Unfortunately, rather than to cooperate to resolve financial mismanagement problems, correct administrative negligence and assist in proper investigation of possible criminal misconduct, some in the Administration have attempted to thwart the Congressional hearing process, attack the GAO investigative staff and block the proper review of very significant problems of an important federal program. That indeed is unfortunate.

Today's hearing will focus on the management, financial administration, and current problems facing our national anti-drug media programs. We will hear from the General Accounting Office, ONDCP and its consultant. Hopefully this hearing can help us identify specific areas that need our attention and that will improve both the effectiveness and performance of our anti-drug media campaign.

Mr. MICA. With those comments, I am pleased at this time to yield to the gentlelady and ranking member from Hawaii, Mrs. Mink.

Mrs. MINK. Thank you very much, Mr. Chairman. I have had an opportunity to discuss the issues that are before this subcommittee both with the Office of National Drug Control Policy staff as well as the GAO investigators. I believe that this hearing which has been called today is absolutely premature. The GAO investigators have been given a very narrow assignment which they are about to report on to this committee today, and that is the role of the Director of the Office of National Drug Control Policy with reference to what he did or did not do upon being advised that there was potential fraud being committed with respect to this contract that the chairman has just described.

The issue really before this Congress and this committee and subcommittee ought to be whether the allegations that have been made about fraud are in fact true. To what extent the Director of this agency acted in one way or another it seems to me is not the crux of the issue. Those matters can be discussed much later. The more important issue is whether these anonymous sources that have brought this charge of fraud and doctoring of billing and so forth is true and can be proven. From what I have gathered in my discussions with the investigators and with GAO, any such conclusions are premature. It will take the agency many more months to investigate the so-called doctored sheets and to investigate the 300-plus employees who submitted these worksheets. We also need to go to the contractor and find out exactly what their contracting practices were.

At this point, we should be sitting here commending the ONDCP for having alert, conscientious staff that decided to withhold payment of \$13 million or so before all of this broke because they were insistent that the Government contracting practices with reference to justification of billing was actually proven by the contractor who sought payment rather than point to this withholding of the moneys allegedly due the contractor as some proof that there was knowledge of fraud. It seems to me that the employees who function in this capacity were doing exactly what the law expected of them; and that is, to require all contractors dealing with the Federal Government to provide proof that the payment was justified. I have no idea because we have no facts before us as to exactly what proof was lacking which caused the agency not to make these payments to the contractor. But all of that needs to be looked into by the GAO. And as I understand it, there is an ongoing inquiry.

It is sad that a subcommittee hearing has to be called based upon anonymous tips from whomever, either in the contractor's agency or in the drug policy agency. I never understood why the whistle-blower law required the agencies to refrain from disclosing the people who are coming forth with important valuable information that could lead to the prosecution of individuals. If the matter is still under investigation, that is fine, then anonymity is probably a valuable requirement. But if we are to have a congressional hearing upon which these charges are based, it seems to me that the identity of these individuals is required. The whistle-blower law then protects these individuals from intimidation and harassment

and other kinds of possible negative employment consequences within the agency or within the contractor's office or wherever they work. But to have a hearing today and to be faced with the crux of the issues that we are discussing, coming from anonymous sources which we on this side have not had the opportunity to investigate, to interrogate, to discuss these matters to understand the enormity of the charges being made, I find that extremely tenuous and difficult to justify.

I am of course, as are my colleagues on this side of the aisle, equally concerned about any charges of fraud and mismanagement and lack of propriety in terms of any employees inside and outside the Government. And it is our function as an oversight committee to investigate those. But it seems to me that this hearing today is premature and is really an effort to single out the agency and exactly what they did with the information that came to them about these charges of fraud. That matter has been turned over to the GAO. It is being investigated. It seems to me that we ought to wait for that investigation to conclude.

The Special Investigators Office of the GAO is charged with investigating criminal conduct. And here we are talking about these matters without a shred of evidence from this special investigating unit to indicate that fraud did occur, who is responsible for this fraud, and to what extent this Congress and this subcommittee can now move to make sure that those kinds of things never occur again. The investigation of the criminal conduct is not our responsibility. Our responsibility is policy directed. And to that extent, to have a hearing before we know whether there has been in fact deliberate criminal conduct on the part of anybody it seems to me is an inappropriate investigation.

But be that as it may, we are here today. I hope that we can elicit from the witnesses who have been called their frank and honest opinion as to what we are doing here today and why, and where do we go from here. Thank you very much, Mr. Chairman.

Mr. MICA. I thank the gentlelady and ranking member.

We are joined this morning by the chairman of the full Committee, Mr. Burton, the gentleman from Indiana. You are recognized, sir.

Mr. BURTON. Thank you, Mr. Chairman. I will not take very much time. I would maybe like to take a little issue with my colleague, the gentlelady from Hawaii. I have before me from the Executive Office of the President, the Office of National Drug Control Policy a memo from the project officer who indicates that there are suspicions of fraudulent conduct. That is not anonymous. That is something that we have as a matter of fact. I hope this has been entered into the record. If it has not been, it should be.

Mr. MICA. Without objection, the April 13th memo will be made a part of the record.

[The information referred to follows:]



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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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 Legal
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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 00~~
 Mc 4/27
 4/13/00

- Discuss
 - Will need
 - cts for 50+ on this ASAM

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 few months were devoted to transition of activities from Bates, and Ogilvy's "learning" the

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

yes. We need an external audit. no!

Mr. BURTON. The other thing, Mr. Chairman, is that we do have a responsibility as an oversight committee over the executive branch to ferret out waste, fraud, abuse, and if there is criminal activity, to investigate that as well. We have some very fine legal minds on this committee, like Mr. Cummings on the other side. If we see something that is illegal that has been going on, we should investigate that, we have the responsibility to investigate it, and if we find there is some criminal activity, send a referral to the Justice Department. So there is no question that this falls within the jurisdiction of your subcommittee. And I congratulate you for holding this hearing.

I would just like to say one thing. This shows that this whole program of advertising and bringing more awareness to the youth of America about the perils of using drugs is not working as well as we would have hoped. We have taken a tremendous number of resources that were used for interdiction and for eliminating drugs at their source and fighting the drug war in places like Colombia, Bolivia, and Peru and we put them over into this new program. The results have been, at best, questionable. As I understand it, there have been more drug deaths in 1998, that is the last report we have, than there have been murders. And so, the program has not been as beneficial as we would have hoped.

The staff over at ONDCP has been increased but the number of people that have been involved in the other programs has been reduced dramatically. We have been trying, Chairman Gilman and I and Chairman Mica along with others, to get equipment down to the Colombian national police and the people in power down in Colombia so they could fight the producers of the cocaine and heroin that is flooding our country and killing our young people. Much of that money has been very, very difficult to get. We finally have the President and the administration on board. But, unfortunately, we were just informed the other day in the Foreign Affairs Committee on which I serve that the helicopters probably will not get down there until after 2002 and the drug war could very well be lost by that time. So we are very concerned about that, especially when we have plenty of helicopters already in our inventory that we could send down there, the Blackhawks and the Hueys.

So I think we need a more balanced approach. I think this apparent evidence of wrongdoing in the advertising is another manifestation of a program that is not working well. We need a more balanced approach in the war against drugs. Obviously, we need education. I do not downgrade that request from the administration and where they are heading at all. I am just saying that we have put too much emphasis on the educational aspects and not enough on interdiction and eradication. We need to have a three-pronged approach instead of focusing primarily on this one area. We know from the statistics that we have so far that this one approach and focusing more on that than the others simply is not working. We are still losing the war on drugs, if you want to call it that, and I think it is unfortunate. We need to have a balanced approach, and I think this is one more manifestation of reasons why we need a balanced approach.

I thank you once again, Mr. Chairman, for holding this hearing.
Mr. MICA. I thank the chairman.

I am pleased to recognize the gentleman from Maryland, Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. I am certainly very pleased that Mr. Burton is here with us, and I do appreciate what he just said with regard to prevention/education. We need to stick in there treatment, something that I have been very concerned about, and certainly interdiction.

Mr. Chairman, I would first like to take a moment to thank the Office of National Drug Control Policy for their strong leadership and cooperation with Congress in fighting this war against drugs. I believe it is important to note that ONDCP Director General Barry McCaffrey personally sat down with youth in Baltimore for a half-day town hall meeting to hear how the drug war and the media campaign have impacted their lives. I was sitting there as they talked with the director and they made it clear that these ads were having an impact on them. But the reason why he was there was to find out how he could be even more effective, how the ads could strike even more of their classmates. These were high school students sitting down for half a day with the No. 1 drug officer in the world to find out how we could take these tax dollars that citizens are giving our Government and spend them in a cost efficient and effective manner. And I thank Dr. Vereen, the ONDCP Deputy Director, who I have also worked with, for all of your assistance as well.

Now, to the issue at hand. It is unfortunate that despite its good work, ONDCP has to again be placed in a defensive position as a result of unsubstantiated allegations. I might add that when I first came to Congress 4½ years ago, one of the first hearings that I had in this committee was an attack on this agency. Since the inception of the National Youth Anti-Drug Media Campaign in 1998, this subcommittee has closely monitored the campaign to determine its efficiency and effectiveness. According to a recent GAO report, "ONDCP has met most mandates" regarding the media campaign funds and program guidelines.

In July of this year, GAO, the revered investigative authority, found that survey data on drug abuse, focus groups, and community input supported the notion that ONDCP's anti-drug media campaign has met its congressional mandates. According to numerous studies released this year, the campaign has had real results in meeting campaign goals to reduce drug use among its target populations. According to the most recent Monitoring the Future Survey, as anti-drug ads have risen, so have attitudes about the social disapproval and perceived risk of illegal drug use. The 1999 National Household Survey on Drug Abuse reported that drug use by 12 to 17 year-olds dropped by 21 percent over a 2-year period, from 1997 to 1999. Additionally, the PRIDE, that is the Parent's Resource Institute for Drug Education, survey reported that, between 1996 and 1999, annual use of any illicit drug declined by a third among junior high school students.

Over the years, we have held numerous hearings to investigate allegations. I have noticed that this subcommittee in some ways resembles our full committee—one that has continually sought to find wrongdoing in this administration. Sadly, allegations have not only been levied against ONDCP, but also one of the top public re-

lations firms in the Nation, Ogilvy and Mather, an important partner in the media campaign.

These allegations may be sensational but they do not assist in combating the drug war, and further, have potential to strain a successful partnership between Ogilvy and Mather and our Office of National Drug Control Policy that will eventually affect our Nation's youth, the very youth that I talked about a little bit earlier who sat down with the drug czar.

The allegations raised today question whether Ogilvy and Mather over-billed for labor or falsified records, and whether ONDCP and HHS contract management did not adequately follow-up once alerted to the concerns. I have worked closely with General McCaffrey and his staff on numerous issues. I know that he is running a tight ship because he is very concerned about the effectiveness and cost-efficiency of all the dollars given to ONDCP by this Congress. As such, I believe that ONDCP should be afforded the opportunity to find solutions and answers when questions arise—before our subcommittee jumps in to investigate and point fingers.

I would like to outline a timeline that highlights when the irregularities at question were raised and how ONDCP addressed them.

On April 13, 2000, a memo from Richard Pleffner, ONDCP project contracting officer, who will testify today, to General McCaffrey stated concerns regarding Ogilvy's management practices and possible billing irregularities. These uncertainties were reinforced when a former Ogilvy employee raised those concerns.

Three weeks later, on May 4, 2000, ONDCP sent a letter to Ogilvy expressing concern about labor costs in their year 2000 project plan and asked that Ogilvy reassess the plan to make the costs in line with the original proposal.

ONDCP then went on to hire an independent media consultant, who will testify today, Ms. Jane Twyon. Her findings concluded that there were cost-savings that Ogilvy could have made based on industry traditions and standards.

Subsequently, ONDCP withheld approximately \$14 million in payments to Ogilvy. Although Ogilvy provided several reasons for their costs in a June 2000 letter, ONDCP asked Ogilvy to break down its costs more thoroughly to assist in determining what were reasonable expenses.

Since that time, General McCaffrey approved the recommendation by ONDCP's Office of Legal Counsel for ONDCP to conduct an internal audit of the management practices of the media campaign to identify areas that need improvement. My understanding is that General McCaffrey also approved a recommendation that HHS conduct an audit of all media campaign contractors.

All this to say, what is the problem? I will review, and I close: ONDCP was alerted to a potential problem, ONDCP took necessary steps to investigate the issue, and ONDCP took steps to address the problem. As such, I believe that instead of attacking and launching new investigations, ONDCP should be commended for taking action.

Mr. Chairman, I look forward to hearing from today's witnesses so that we may clear up this issue and get back to the business of saving our Nation's youth. Thank you.

Mr. MICA. I thank the gentleman from Maryland.

I am pleased to recognize the vice chairman of our subcommittee, the gentleman from Georgia, Mr. Barr.

Mr. BARR. Thank you, Mr. Chairman. I love the way folks on the other side approach these hearings. They reach the conclusion that nobody has done anything wrong and then they blast us for holding a hearing. Thank goodness, folks with that sort of outlook are not running the Department of Justice. Actually, they are.

Mr. Chairman, this is a very important hearing. You posed, and I repeat these since apparently some folks on the other side did not hear them during your opening remarks, some very important questions regarding possible over-billing, contract fraud, and financial mismanagement. These are questions I am sure that came to your mind not simply sitting around with nothing better to do, but, as always in these hearings, based on your careful consideration of evidence before you, interviews, and materials submitted to you by the staff, and, in this case, including your review of extensive materials provided by the General Accounting Office [GAO], not the General Anonymous Office, as another member apparently thinks we are dealing with here, anonymous evidence. We are dealing with a report from the General Accounting Office.

The questions that you pose, Mr. Chairman, I think at least some of them are worth repeating because every one of them clearly falls within the jurisdiction of this committee. Now I know that it might be easier if we just sit back the way Government operated up until 6 years ago and just let these things roll merrily along and, as former Senator Everett Dirksen used to say, a billion here, a billion there, and pretty soon you might be talking about real money. Those of us on this side take our fiscal responsibility seriously and a billion here and a billion there requires very strong oversight on behalf of the taxpayers of this country. And if we just sit back and let these things roll merrily along and wait until this great Department of Justice that we have conducts an investigation, not only would we be through the next administration but probably two or three administrations after that, and billions of dollars would have been lost.

It is entirely appropriate, Mr. Chairman, indeed, it would not be responsible not to conduct an investigation at this time, to start asking some questions in order to uncover any potential problems and assist rather than fight the GAO in attempting to remedy them, and assist ONDCP rather than fight it or sweep it under the rug if problems exist and help them resolve them. Some of the questions you pose, Mr. Chairman, and apparently these are irrelevant to the other side, but I think they fall clearly within your interpretation and very clear mandate for jurisdiction of this committee: Why has ONDCP refused to pay millions of dollars in submitted bills?

Why did ONDCP officials express cost concerns to Department of Health and Human Service contract officers who also had contract oversight responsibilities?

Was contract administration management within ONDCP and arrangements with HHS sufficient to oversee this complex contract?

Why didn't ONDCP push for an immediate audit? In April, the ONDCP consultant identified significant cost issues, with some costs estimated at over 200 percent of industry standards.

Finally, are appropriate safeguards in place or underway for effectively monitoring and controlling costs?

I would ask my colleagues on the other side, what do you find so offensive and inappropriate about these questions? These are standard oversight questions that ought to be answered. And when, as in this case, evidence comes before this committee, not by some anonymous source but by memos and by notations by the highest officials in ONDCP, that raise questions, maybe that can be very well answered, but raise questions substantiated by GAO that there are some problems here, why the people on the other side of this aisle find this so offensive is very, very strange indeed. These are simply straightforward oversight questions posed by you and this subcommittee on this side as early on in this process as we became aware of them in an effort to straighten this out and to continue the good work of ONDCP. But if there are problems there, to make an effort, rather than wait until all the money has been spent, until all of the horses have left before we close the barn door, to address these questions now.

I commend you, Mr. Chairman, for stepping forward and conducting appropriate and timely oversight as good stewards of the public's money. Thank you.

Mr. MICA. I thank the gentleman.

I would like to recognize another member of our subcommittee, the gentleman from California, Mr. Ose.

Mr. OSE. Thank you, Mr. Chairman. I think Mr. Barr has very eloquently stated why we are doing this. It is interesting, I was studying this material the staff has put forward the last couple of days regarding the actual contract. And while I have a number of questions on the contract, not the least of which is that the pages that would otherwise detail the unit costs within the contract seem to be missing, I am looking forward to this discussion and am particularly interested in getting all the way back to the time sheets of the Ogilvy Mather employees. I think that is where the crux of this matter lays.

With that, I would like to go straight to questions if we could, having read Mr. Hast's testimony.

Mr. MICA. I thank the gentleman.

There being no further opening statements, Mrs. Mink moves that we leave the record open for a period of 2 weeks for additional statements, comments, information through the Members and the Chair.

Mrs. MINK. Fine. Great.

Mr. MICA. Without objection, so ordered.

We will turn now to our panel of witnesses that we have assembled this morning, all of whom I believe will be testifying at some point. We are pleased to have Mr. Robert H. Hast, who is the Director of Office of Special Investigations of the General Accounting Office. He is accompanied by Pat Sullivan, the Assistant Director, Office of Special Investigations, and John Cooney, a Senior Special Agent, Office of Special Investigations. We are also pleased to have back the Honorable Donald Vereen. Dr. Vereen is the Deputy Di-

rector of the Office of National Drug Control Policy. Dr. Vereen is accompanied by Mr. Alan Levitt, who is the Campaign Director under the ONDCP for the media campaign, and Mr. Richard Pleffner, Project Contracting Officer of ONDCP. We also have Ms. Jane Twyon, who is with Worldwide Consulting, and she is a consultant to ONDCP.

For those of you who have not appeared before our subcommittee before, this is an investigations and oversight subcommittee of the House of Representatives. In that regard, we do swear in our members and you will be under oath. Also, if you have lengthy statements or documents to submit, I am not going to run the clock because I think we are just going to hear from three and then use others as resources, but if you have lengthy statements, data that you would like made part of the record, if you would request so through the Chair it will be so ordered.

With that, if you would please stand to be sworn, everyone who is going to testify.

[Witnesses sworn.]

Mr. MICA. Let the record reflect that all the witnesses answered in the affirmative.

I am pleased now to recognize Mr. Robert H. Hast, the Director of the Office of Special Investigations, the General Accounting Office. Welcome, sir, and you are recognized.

STATEMENT OF ROBERT H. HAST, DIRECTOR, OFFICE OF SPECIAL INVESTIGATIONS, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY PAT SULLIVAN, ASSISTANT DIRECTOR, OFFICE OF SPECIAL INVESTIGATIONS, AND JOHN COONEY, SENIOR SPECIAL AGENT, OFFICE OF SPECIAL INVESTIGATIONS

Mr. HAST. 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 contract with Ogilvy-Mather, which is the lead media campaign contractor for the National Youth Anti-Drug Media Campaign. I respectfully ask that my written statement be entered into the official hearing record at the conclusion of my summary remarks.

Mr. MICA. Without objection, your entire statement will be made part of the record. Please proceed.

Mr. HAST. You received allegations that the ONDCP had learned that Ogilvy was allegedly inflating its labor costs 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 of this year, the Director of ONDCP, General Barry McCaffrey, U.S. Army, retired, was informed about these allegations and the results of the consultant's study. This allegedly resulted in General McCaffrey's decision that an external audit be conducted of the Ogilvy contract. However, according to the allegation, after the General met privately with the contractor's project director, the project director announced that General McCaffrey was satisfied with the contract's costs and that no external audit

was to be conducted. In addition, you received information that Ogilvy allegedly had provided assistance to General McCaffrey concerning matters not involving ONDCP and billed for this service under the contract.

Beginning in July, we investigated the facts and circumstances surrounding actions that ONDCP took 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 these issues.

In summary, we found that General McCaffrey knew about the fraud allegations concerning Ogilvy's billing practices; and there is evidence to suggest that he agreed with the need for an external audit of the contract. When we interviewed General McCaffrey, he initially stated he had no recollection of the accusations of fraud related to the Ogilvy contract. After reviewing the April 13th memorandum that showed he had been informed of these allegations, he did recall receiving the allegations. He then told us that after receiving the April 13th memorandum and a report by a consultant 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, General 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 stated that he did not recall that. However, after reviewing again the annotated April 13, 2000, memorandum, General McCaffrey 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 did not at that time recollect the document and he never did order an independent audit to be carried out on the Ogilvy contract but it was his intention to conduct an audit at some point in time.

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

With regard to the allegation of a private meeting with Ogilvy's project director, we found that General McCaffrey had a private meeting with her in June after internal ONDCP discussions of the need for an external audit. General 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 General McCaffrey that he never ordered an audit.

Further, concerning the allegations that Ogilvy provided services beyond those covered by its 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 the service under the contract.

Ogilvy did not provide any services to General McCaffrey involving his response to an article in the New Yorker magazine that was critical of General McCaffrey when he was in the military. General McCaffrey told us that no one had assisted him in response to this article. However, we found that an official of another ONDCP contractor, Fleishman-Hillard, had spent 3 or 4 hours advising General McCaffrey on this matter. Fleishman-Hillard, however, did not charge the time to its ONDCP contract. We were told that this time was considered a personal favor to General McCaffrey. We also found a May 16, 2000, memorandum to General McCaffrey from Alan Levitt informing him that Fleishman-Hillard officials had told company staff that it was assisting General McCaffrey on that matter.

This concludes my prepared statement. I am happy to respond to any questions you or members of the subcommittee may have.

[The prepared statement of Mr. Hast follows:]

United States General Accounting Office

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



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 Schechter, 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 15, 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. Schecter 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.

Appendix I

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

INFORMATION

MEMORANDUM FOR THE DIRECTOR

THROUGH: CHIEF OF STAFF
EDWARD JURITH

FROM: RICHARD PLEFFNER, PROJECT OFFICER

SUBJECT: Irregularities With Ogilvy Billing

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% (30 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 30 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 9/1/99	Invoice No 14 Dtd 11/26/99	Invoice No 15 Dtd 12/23/99	Total	% Change
Invoiced Effort	10,979	+4,626	+3,811	19,416	+27%
Invoiced Cost	\$2,997,964	+\$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 15 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

Handwritten notes:
CLS
Loop 1
DOZ
Discuss
- Will need
CLS to go to
this area

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 excessively excessive, labor mix is overly top heavy, and the 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 \$900 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 assessed our audit needs with Navy acquisition staff and possibility of requesting a mediate audit of this contract.

Cc: Alan Levitt

Handwritten notes:
no!
yes. We need an external audit.

Ordering Information

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1-800-424-5454 (automated answering system)

Mr. MICA. Thank you. I have no questions at this time. I understand Mr. Sullivan and Mr. Cooney were involved in the investigation but have no statement at this time. Is that correct?

Mr. HAST. That is correct.

Mr. MICA. Then we will recognize at this point Dr. Donald Vereen, who is the Deputy Director of the Office of National Drug Control Policy. Welcome, sir, and you are recognized.

STATEMENT OF DONALD VEREEN, M.D., DEPUTY DIRECTOR, OFFICE OF NATIONAL DRUG CONTROL POLICY, ACCOMPANIED BY ALAN LEVITT, CAMPAIGN DIRECTOR, ONDCP; AND RICHARD PLEFFNER, PROJECT CONTRACTING OFFICER, ONDCP

Dr. VEREEN. Thank you very much, Chairman Mica and members of the subcommittee. We welcome this opportunity to explain important aspects of the management and oversight of the National Youth Anti-Drug Media Campaign. I am here representing the White House Office of National Drug Control Policy. I am the Deputy Director there, a physician with a public health background, and I have been actively involved with the media campaign. I would also like to introduce two of my colleagues, Mr. Alan Levitt, the program manager for the media campaign, and Mr. Rick Pleffner, the contract manager for the media campaign, and recognize a couple of partners who are with us, the Community Anti-Drug Coalitions of America, the National Association of Drug Court Professionals, partners that have been working with and are invested in the media campaign.

As you know, the campaign is an integrated, science-based public health communications effort designed to reach youth and adult audiences with messages that influence attitudes and action. Many indicators point to a positive trend and a generation of teenagers are increasingly choosing to stay away from drugs. So we are here today to ensure that this committee is provided with detailed understanding of ONDCP's media campaign management and oversight structure. So allow me to submit at this time my detailed written testimony for the record.

Mr. MICA. Without objection, your entire statement will be made part of the record. Please proceed.

Dr. VEREEN. What I will do at this time is highlight three critical components expressed in the written testimony, which is actually already available on the Web.

ONDCP is meeting Congress' intent and we are appreciative of your confidence in our ability to design, implement, and manage this vitally important public health campaign. We welcome the oversight. We take very seriously our management responsibilities for this campaign. Let there be no doubt that Director McCaffrey is the accountable public official for this 5-year, \$1 billion effort. We welcome close public scrutiny of our operations and will continue to cooperate fully with all oversight functions, including the General Accounting Office review, committee inquiries, as well as congressional hearings like this one. This is the seventh hearing to focus on the media campaign since March 1999.

We take great pride in the GAO's recent conclusion that ONDCP had processes in place to monitor and approve all paid advertising

expenditures before paying vendors. We are involving experts in prevention in the campaign. As I said before, the campaign is firmly grounded in science. We have the use of a behavioral change expert panel, as well as Wesstat Corp., the University of Pennsylvania's Annenberg School of Communications, and our own National Institute on Drug Abuse which is evaluating the campaign to show that it is actually having the desired effects for the American public.

Is ONDCP negligent in administering this contract? Is the public being gouged? The answers to those questions are, no. We are diligently protecting the public purse. From the campaign's inception, ONDCP has relied on other Federal agencies to provide administrative contract support for the campaign's paid advertising contracts. We made this decision because of our conclusion that neither ONDCP nor the larger Executive Office of the President had contract administration capabilities necessary to support this extensive contract. The Department of Health and Human Services Program Support Center provides administrative contract support for this media campaign. They have the sole responsibility for determining allowability and reasonableness of expenses billed to the Government by contractors.

Nevertheless, ONDCP ensures that only valid campaign expenses are paid by monitoring all of the contractors' costs and spending. We execute this responsibility by attending planning meetings with contractors, obtaining periodic financial status reports, and reviewing and approving all campaign expenditures. We make recommendations to the contract administrators in HHS, and our experience is that they agree with most of our recommendations.

Our media campaign has enjoyed a tremendous amount of support. You have that information in front of you in a number of slides. This is to demonstrate that we are fulfilling the promise that we have established, a model for a public-private sector collaboration. There are a host of collaborators who are involved with this who are invested in this program.

We are proud of the campaign's significant accomplishments. We have exceeded the pro bono match requirements which you helped us to develop and establish. Since July 1998, over 425,000 public service announcements have run because of the campaign. And in terms of banner ads on Web sites, there have been an impressive 586 million total impressions between 1999 and the year 2000. And we have bought advertising in more than 2,000 media outlets. These accomplishments have been critical to achieving the positive trends toward attitude and behavior change among our national youth. You have required that of us. Drug use, according to the National Household Survey, has declined 21 percent. Sixty-three percent of teens reported their parents were talking to them about drugs.

And last, I want to mention that we are enormously proud of the accomplishments of our contractors. Ogilvy and Mather is one of the largest and most respected advertising companies in the world. They bring significant negotiating leverage to the table, allowing the Government to attain the lowest possible market rates and access to substantial and unique media match opportunities. We esti-

mate that the ONDCP has saved 10 to 50 cents for every taxpayer media dollar invested. So we are getting a great bang for our buck with Ogilvy. The company has been considered experienced in social marketing campaigns, having been responsible for the highly successful America Responds to AIDS campaign. Fleishman-Hillard is the other large contractor, one of the largest and most well-respected communications firms in the world. And we work with the Ad Council and they are the quarterback of our campaign's public service component.

Mr. Chairman, I want to thank you and this committee for the opportunity to address your concerns. We welcome the committee's leadership and continued interest in reviewing the progress and achievements of the media campaign. We continue to forge ahead to maintain a strong management and oversight structure for this campaign. But more importantly, we are fully committed to securing the mission and effectiveness of this campaign to change drug use attitudes and behavior among our Nation's youth.

We will be happy to take your questions. I will let Mr. Levitt introduce himself and Mr. Pleffner introduce himself.

[The prepared statement of Mr. Vereen follows:]



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

Statement by Donald R. Vereen, Jr., M.D., M.P.H.
Deputy Director, Office of National Drug Control Policy
Before the House Committee on Government Reform,
Subcommittee on Criminal Justice, Drug Policy, and Human Resources
October 4, 2000

INTRODUCTION

Chairman Mica, Representative Mink, distinguished members of the subcommittee, we welcome this opportunity to explain important aspects of the management and oversight of the National Youth Anti-Drug Media Campaign. This campaign is an integrated, science-based, public-health communications effort designed to reach youth and adult audiences with messages that influence attitudes and action. Many indicators point to a positive trend and a generation of teenagers increasingly choosing to stay drug-free.

- The media campaign is making a difference. Youth drug use rates are declining.
 1. **Adolescent drug use declined 21 percent** between 1997 and 1999 (1999 National Household Survey on Drug Abuse).
 2. **Youth drug use has decreased 34 percent** over the past three years (2000 PRIDE Survey).
 3. The percentage of 13-18 year-olds **strongly agreeing** with the statement "**kids who are really cool don't use drugs,**" **increased** from 35 percent in 1998 to 40 percent in 1999 (Partnership for a Drug-Free America, 1999 Partnership Attitude Tracking Study).
 4. The teenage **belief that "most people will try marijuana sometime" declined** to 35 percent in 1999, from 40 percent in 1998 and 41 percent in 1997 (Partnership for a Drug-Free America, 1999 Partnership Attitude Tracking Study).
 5. In 1999, **63 percent of teens reported parents were talking to them** about the risks of drug use, up from 53 percent in 1998 (Center on Substance Abuse and Addiction, 1999 Back to School Survey).
 6. The number of young people reporting that their **schools were drug-free increased** from 31 percent in 1998 to 44 percent in 1999 (Center on Substance Abuse and Addiction, 1999 Back to School Survey).
 7. The percentage of students who agree strongly with the statement "**Marijuana Users Are Popular**" **declined from 17 percent in 1998 to 10 percent in 1999** (Partnership for a Drug-Free America, 1999 Partnership Attitude Tracking Study).
 8. Additionally, the **proportion of parents who talk to their kids** about drugs **increased** from 44 to 57 percent. (Partnership for a Drug-Free America, 1999 Partnership Attitude Tracking Study).

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Several individuals and organizations play important roles in shaping and conducting this vital drug-prevention campaign. (See **Appendix I for full description of our team members and their accomplishments.**) We are all indebted to Mr. Jim Burke and the **Partnership for a Drug-Free America (PDFA)**, which has been our tireless partner in implementing the campaign. We would not be as successful in our anti-drug efforts without their valuable expertise and good will.

Ogilvy&Mather has demonstrated tremendous creativity, integrity, and responsiveness throughout this campaign and their work has been integral to its success. We are grateful for the leadership of Shelly Lazarus, CEO, and for the dedication and commitment of Shona Siefert, project manager, to the National Youth Anti-Drug Media Campaign.

As one of the largest and most well-respected communications firms in the world, **Fleishman-Hillard**, under the leadership of Paul Johnson, has done an outstanding job in helping us reach youth and parents wherever they are. Their indefatigable efforts ensure that no child or adult influencer is being left behind.

Peggy Conlon of the **Ad Council** is the quarterback of the campaign's public service component. The Ad Council is the nation's largest clearinghouse for public service advertising and with its assistance, the campaign has expanded public service advertising efforts, even in a time of declining PSA air time.

Major General (Ret.) Art Dean and the **Community Anti-Drug Coalitions of America (CADCA)** are valuable team members. For this campaign to succeed we must not only reach people via the airwaves, but in their communities, as well. Through the help of CADCA, we have "localized" the campaign. From parenting programs to anti-drug soccer tournaments, we can reach all Americans --- where they live, work, and play.

Dr. Alan Leshner and the **National Institute on Drug Abuse (NIDA)** play a critical role in the evaluation of the campaign by helping to ensure we are producing the results we need. Dr. Leshner is, without question, one of the world's leading authorities on drug abuse. NIDA sponsors roughly 85 percent of the world's research on drug addiction.

The ONDCP campaign management team has overseen the design of this remarkable campaign. Part I of this testimony summarizes the basis and structure of the campaign. Our management team has also supervised the successful execution of the campaign. Part II discusses the evaluation of the campaign, presents its results achieved to date, and details the performance plan and projected results for Phase III of the campaign. Finally, our team has protected the public purse and has demonstrated tremendous fiduciary responsibility. Part III discusses the management processes and structure of the campaign.

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Section I. Basis and Structure of the National Youth Anti-Drug Media Campaign

A. Authorizing Legislation Requires a Comprehensive Anti-Drug Approach

The requirement to conduct a national media campaign is outlined in 21 U.S.C. § 1801 *et seq.*, which also provides specific instructions to ONDCP. Pertinent excerpts of Sec. 1802 (use of funds) are cited below:

In general ... Amounts made available to carry out this chapter for the support of the national media campaign may only be used for –

- (A) the purchase of media time and space;
- (B) talent reuse payments;
- (C) out-of-pocket advertising production costs;
- (D) testing and evaluation of advertising;
- (E) evaluation of the effectiveness of the media campaign;
- (F) the negotiated fees for the winning bidder on request for proposals issued by the Office of National Drug Control Policy;
- (G) partnerships with community, civic, and professional groups, and government organizations related to the media campaign; and
- (H) entertainment industry collaborations to fashion anti-drug messages in motion pictures, television programming, popular music, interactive (Internet and new) media projects and activities, public information, news media outreach, and corporate sponsorship and participation.

“Amounts made available under Section 1804 of this title should be matched by an equal amount of non-Federal funds for the national media campaign, or be matched with in-kind contributions to the campaign of the same value.”

B. The Campaign is Based on Sound Research

Media play an important role in public health campaigns because of their wide reach, real time impact, and ability to influence behavior.¹ The news media shape our decisions and actions by informing and alerting us to what is going on in our communities, as well as telling us about trends in our culture. The entertainment media also help influence our beliefs about the world around us.² Advertising stimulates or changes perceptions and beliefs about specific issues (seatbelts, drunk driving, etc.).

For all their power to inform and persuade, the media cannot bring about large, sustained changes in drug use behavior by themselves. Research shows that media programs work best in

¹ Flora, Maibach, & Maccoby, 1989; Maibach & Holtgrave, 1995.

² Brown, Childers, & Waszak, 1990; Gerbner, Gross, Morgan, & Signorelli, 1986; Maccoby, 1984.

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conjunction with other community- and school-based anti-drug programs. The objective is to convey clear, consistent messages through a variety of channels and to encourage key influencers to support these messages.³

C. The Campaign Assures Success Through a Fully Integrated Effort

After extensive research, we concluded that campaign messages must reinforce prevention messages delivered in other settings -- including schools, community organizations, places of worship, and homes -- and be linked to existing prevention resources in communities. Therefore, we developed a strategy based on proven integrated communications approaches. The approach we embrace encourages adoption by schools, community organizations, professional groups, and government agencies.

Our communications strategy adheres to congressional intent articulated in the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (P.L. 105-277, October 21, 1998). Our strategy emphasizes the following areas, specifically authorized in this legislation:

- ✓ Purchase of media time and space.
- ✓ Testing and evaluation of advertising and the entire campaign.
- ✓ Partnerships with community, civic, professional, and government organizations.
- ✓ Entertainment industry outreach to fashion anti-drug messages in movies, television programming, and popular music.
- ✓ Interactive (Internet and new) media activities.
- ✓ Public information (news media outreach).
- ✓ Corporate sponsorship/participation.

³ Flay & Sobel, 1983; Maccoby, 1990; Schilling & McAllister, 1990; Sibbald & David, 1997.

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The anti-drug media campaign is anchored by a broad advertising effort...

Advertising (both purchased and pro-bono matches) on TV, radio, print, and the Internet is the cornerstone of the media campaign. **(See Appendix II for a listing of the publications included in our advertising "Roadblock," to inundate the media with messages about drugs.)** We programmed \$153.017 million in FY 1998 for advertising and increased allocations for advertising by 16.7 percent to \$178.584 million in FY 1999. In FY 2000, this figure was \$176.808 million. The advertising delivers specific anti-drug messages each month across 102 local markets with more than 2,250 media outlets. The strategic use of advertising increases the reach and frequency of our key messages. In year 1 of Phase III (July 1999 – June 2000), we reached 95 percent of 12 to 17 year-olds with an average of 8.3 messages per week.

... bolstered by complementary communications activities.

The non-advertising component of the anti-drug campaign delivers our messages through radio and television, print media, the Internet, faith communities, health professionals, community coalitions, schools, parents, coaches, and organized sports. The drug prevention campaign also includes an entertainment industry component to ensure that drug use is depicted *accurately* on television and in film.

We programmed \$12.778 million in FY 1999 and \$9.794 million in FY 2000 to anti-drug outreach media campaign efforts that include the following activities:

1. Partnerships with community, civic and other organizations. To extend and amplify the reach of campaign messages, the non-advertising component builds support for prevention programs with organizational and community partners, and increases public information about drug prevention issues and risks to target audiences.

We have attracted thousands of partners in our effort to reach youth and adults – allowing a wide variety of public and private organizations to participate in and extend the reach of the campaign. Here are some examples:

- *Blast e-mail system.* The media campaign blast e-mail system keeps more than 45,000 stakeholders aware of campaign activities and outreach. These stakeholders in turn generate more readers and viewers of campaign products through their own communication channels that reach literally millions.
- *YMCA of the USA.* Our partnership with the YMCA of the USA reaches sixteen million people (eight million kids). As a result, for the first time in their history, the YMCA is incorporating drug prevention resources and messages into their publications and curriculum materials.

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- *Youth Service America*. Similarly, the Media Campaign is collaborating with Youth Service America – an umbrella organization of two hundred youth service groups representing thirty million young Americans – to regularly disseminate Media Campaign information through their network.
 - The campaign is also working through national organizations like the Boys and Girls Clubs, the National Middle Schools Association, and the National Educational Association to strengthen anti-drug efforts at the local level.
2. Entertainment Industry Outreach. Federal public health agencies like the CDC, NIDA and SAMHSA are engaging the entertainment industry to ensure that when drugs are portrayed in programming, an accurate depiction is communicated – including norms, risks, and consequences. Subject matter experts meet regularly with producers and entertainment executives to offer factual medical and behavioral perspectives on drug use. Additionally, they are also conducting content analysis studies to determine how drugs are portrayed in entertainment media.⁴
 3. Interactive (Internet/New Media) Projects and Activities. This campaign is the most comprehensive interactive media effort ever launched by the federal government. The Internet is a powerful vehicle for delivering our campaign messages because the medium is growing; youth use of the medium is growing; the medium enables measurable advertising; success measures are granular and immediate; the internet is extremely cost effective; and synergies with the overall media plan are considerable.

Internet usage growth rate has been 100 percent over the past two years, and is likely to continue to grow at a compounded annual growth rate of 53 percent over the next four years.⁵ The Internet's expansion outpaces that of television and radio following their introductions. The penetration attained by the Internet in its first five years was matched by television after thirteen years and radio after thirty-eight years.⁶ Users spend an average of 7.5 hours on-line each month, and this time is increasing.⁷ More households with children now subscribe to an internet service than subscribe to a daily newspaper.

While 22 percent of households with children are on-line, 34 percent of 12 to 17 year-olds have access to the Internet today, and 60 percent are expected to have access by the year 2002.⁸ Parents are also on-line during work-hours; the Internet is the most accessible communications medium in

⁴ See for example *Substance Abuse in Popular Movies & Music*. Office of National Drug Control Policy & U.S. Department of Health and Human Services. April 1999.

⁵ EMarketer, September 20, 1999.

⁶ Meeker, Mary and Pearson, Sharon, Morgan Stanley, *U.S. Investment Research: Internet Retail*, May 28, 1997.

⁷ Jupiter Digital Kids 1999.

⁸ EMarketer, September 20, 1999 - While 22 percent of households with children are on-line, 48 percent of 12 to 17 year olds have access to the Internet today and 60 percent are expected to have access by the year 2002.

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the workplace. Parents access the web primarily for information. Health data is second only to news in terms of the reasons they log on.⁹

The World Wide Web, with eight million sites, allows for much narrower targeting than other media. Internet technology is becoming an integral component of other entertainment/information vehicles (e.g. games, CDs, CD-ROMs, DVD), further increasing target breadth/engagement. Technology enables users to delve deeply and immediately into subjects of interest.

Media Campaign Websites

The campaign manages eight websites where parents, teens, and tweens can learn, play, and interact with others. The sites are widely publicized, including references and links through hundreds of other websites focused on parenting, health, education, sports, and general teen outreach. Current site statistics follow:

Freevibe:

Since its launch in March of 1999, Freevibe.com has received 1,847,313 page views.
Average Number of Page Views Per Day - 10,669.
Average User Session Length - 7 minutes and 46 seconds.

AOL PDRC:

Since the launch of the Parents' Drug Resource Center area, it has received 432,630 member visits.
Average User Session length - 6 minutes and 20 seconds.

In addition to the websites for which we have direct responsibility, we are now linked to many other government websites. You may recall that Representative Matt Salmon led the way by introducing legislation to include anti-drug messages on NASA's website – the government site most visited by young people. Since NASA agreed to carry anti-drug messages and link to our websites, more than twenty other federal agencies have added anti-drug messages to their websites.

Beyond government sites, we are adding an average of three more website links per week to educational groups, non-governmental organizations, advocacy groups and others in the prevention community. The campaign has developed and continues to develop on-line interactive resources for all campaign audiences, both on its own and in collaboration with major on-line media companies such as AOL.

4. News Media Outreach. Central to the media campaign are public information activities that involve the news media, direct outreach, and special events to generate a steady flow of campaign messages to youth and adult audiences. News media outreach in 1999 alone has generated more than 124 million media impressions. Outreach ranges from national print and broadcast outlets to local community (and even school) newspapers in order to provide context,

⁹Media Metrics, August, 1999

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relevance and repetition for campaign messages and to educate reporters and leverage current events and trends. Additionally, program activities and outreach initiatives have been developed to reach adults and kids where they spend the majority of their time - at work and in school.

Some examples of public information outreach are:

- **Cub Reporters:** A major cable company, MediaOne, and ONDCP co-sponsored a "Cub Reporter" bus tour from Miami to Washington, D.C. in the last week of August 1999. The cub reporters talked with and filmed other kids' experiences and opinions about drugs.
- **School-based programs:** In August 1999, ONDCP unveiled a package of school-based programs for the 1999-2000 school year and beyond. They include the Straight Scoop News Bureau, which is a resource for middle and high school journalists to give them factual "straight scoop" information on drugs and drug use. Partners in the news bureau include the Annie E. Casey School of Journalism for Children and Families, *Chicago Tribune* and *The New York Times*. News bureau resources can be found at www.strightscoop.org.

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Section II. The Campaign Makes a Strong Impact with Measurable Results

- *The anti-drug media campaign is surpassing initial expectations*

PHASE I. During the initial twenty-six-week pilot in twelve cities (Phase I, January through June 1998), we exceeded our goal of reaching 90 percent of the overall target audience with four anti-drug messages a week.¹⁰ The campaign's Phase I message delivery rate follows:

Overall

Teens 12 – 17:	95 % viewed an average of 8.5 messages /week.
Adults 25 – 54:	95 % viewed an average of 7.5 messages /week.

African-American

Teens 12 – 17:	96 % viewed an average of 9.4 messages /week.
Adults 25 – 54:	96 % viewed an average of 8.4 messages /week.

Hispanic

Teens 12 – 17:	90 % viewed an average of 5.9 messages /week.
Adults 25 – 54:	85 % viewed an average of 5.8 messages /week.

We were extremely encouraged to note that significant increases in awareness of anti-drug ads occurred among the target audiences. The evaluations ONDCP submitted to Congress showed that youth and teens demonstrated significant increases in ad recall in the target versus the comparison sites -- youth increases ranged from 11 to 26 percent, teens ranged from 13 to 27 percent. Parents in target sites had an 11 percent gain in awareness of the risks of drugs and said that the Campaign provided them with new information about drugs (a 7 percent increase). Meanwhile, the number and frequency of PSAs for other related social issues increased, demonstrating no interference by the paid ad campaign.¹¹

¹⁰ Findings regarding the effectiveness of Phase I were presented to Congress in September 1998 and March 1999, see *Testing the Anti-Drug Message in 12 American Cities: National Youth Anti-Drug Media Campaign Phase I (Report No. 1)*, September 1998 and *Report No. 2*, March 1999.
¹¹ *Ibid.*

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PHASE II. When the anti-drug media campaign was expanded to a national audience (Phase II, July 1998 through June 1999), we maintained our planned message delivery rates:

Overall

Teens 12 – 17:	95 % viewed an average of 6.8 messages /week.
Adults 25 – 54:	92 % viewed an average of 4.5 messages /week.

African-American

Teens 12 – 17:	96 % viewed an average of 7.6 messages /week.
Adults 25 – 54:	95 % viewed an average of 7.2 messages /week.

Hispanic

Teens 12 – 17:	88 % viewed an average of 4.8 messages /week.
Adults 25 – 54:	84 % viewed an average of 4.8 messages /week.

The anti-drug campaign's messages also began to influence attitudes. The percentage of youth who agreed that the ads "made them stay away from drugs" increased from 61 percent to 69 percent. The percentage reporting they "learned a lot about the dangers of drugs" from TV commercials also increased from 44 to 52 percent.¹²

The campaign's pervasive presence has also been manifested in increased demand for anti-drug information. Since the national launch of the campaign in July of 1998, inquiries received by SAMHSA's National Clearinghouse for Alcohol and Drug Information (NCADI) have increased dramatically. The number of inquiries received between July 1998 and June 1999 increased by 159 percent over the corresponding 1997-1998 period. NCADI also responded to 102 percent more requests for information and distributed more than sixteen million items between July 1998 and June 1999. On peak days – which corresponded with specific anti-drug campaign events (e.g., an article in *Parade* magazine, media coverage of national launch, and media "roadblocks") – requests surged by 367 percent over pre-campaign levels. Per month Internet requests for substance abuse information have increased tenfold since July 1998.¹³

¹² ONDCP submitted an evaluation of Phase II to both Congressional Committees on Appropriations. See *Investing in our Nation's Youth: National Youth Anti-Drug Media Campaign Phase II Final Report*, June 1999.

¹³ SAMHSA-NCADI briefing to ONDCP Director Barry McCaffrey, September 2, 1999.

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PHASE III. (July 1999 – June 2000) Our broad-based advertising effort continues to exceed planned message delivery rates. As a result of the leverage the campaign is providing to other organizations through the required pro-bono matches, we are increasing the reach of the campaign.

Teens 12 – 17:

Paid	91 % viewed an average of 4.4 messages /week.
Paid & anti-drug match	95 % viewed an average of 5.2 messages /week.
Paid & all match	95 % viewed an average of 8.3 messages /week.

Adults 25 – 54:

Paid	82 % viewed an average of 3.5 messages /week.
Paid & anti-drug match	92 % viewed an average of 3.7 messages /week.
Paid & all match	95 % viewed an average of 5.9 messages /week.

• **Additional indicators of success**

No child or adult “influencer” is being left behind. The campaign is reaching minority youth and parents at unprecedented levels, delivering \$33 million worth of anti-drug messages. By any standard, this is the strongest multi-cultural communications effort ever launched by the federal government; it rivals that of most corporate efforts. ONDCP is the largest governmental advertiser in African-American newspapers and we are now developing campaign materials in eight languages.

Private sector support is exceeding ONDCP’s goals and expectations. The anti-drug campaign’s target is a one-for-one match; for every taxpayer dollar we spend, we require an equal added dollar’s worth of anti-drug public service, pro bono activity. In Phase III, over 258,150 national and local broadcast and non-broadcast PSAs have run because of the campaign; since July 1998, over 425,000 have run. In addition to the pro bono match, we have received over \$72 million of corporate in-kind support.

Through this integrated campaign we are reaching young people throughout their lives -- not just through television ads. The number of campaign Internet advertising impressions (ad “banners” on web sites) has reached an astounding 586 million total impressions in the 1999–2000 media year. National media outlets, such as *USA Today*, *The New York Times*, *Parade Magazine*, and *Scholastic* are developing school-based anti-drug materials for distribution to our nation’s schools.

We are reaching nearly every American child on a regular basis with anti-drug information. We buy advertising in 2,250 media outlets nationwide (newspaper, TV, radio, magazines, billboards, movie theaters, and others). We deliver this information at a rate of roughly twice our reach and frequency goals. From the start of the anti-drug campaign through September 1999, roughly 25 billion teen and adult anti-drug message impressions have been delivered.

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To date, the campaign has exceeded its pro-bono match requirements; we have accomplished 109 percent of the media match at a net value of \$183.2 million. We formed partnerships with seven television networks that have produced their own anti-drug PSAs consistent with campaign themes. We attained 168 million pro-bono Internet impressions. The campaign's strategic messages have been supported in more than one-hundred and fifty TV scripts that incorporated science-based anti-drug story lines.

- **Lessons Learned**

The lessons learned from the campaign become enhancements and changes implemented in Phase III. These lessons can be grouped into four categories: Innovation, Productivity and Cost Efficiency, Effectiveness, and Integration.

1. *Innovation*

A truly effective innovative idea incorporates new concepts with a strong strategic focus. With the help of contractors, the media plan forged alliances and partnerships with key industries and segments, such as our partnership with the music industry and PBS via "Sessions at West 54th Street." Ogilvy created a first-ever print roadblock for May 2000, gathering support from the Magazine Publishers of America.

Prior to Phase III, campaign messages appeared simultaneously across a wide variety of communications platforms. Our current media flighting plan implements a message platform strategy, which provides focused levels of exposure for each communications strategy and easier awareness tracking.

2. *Productivity and Cost Efficiency*

To stretch the taxpayer dollar, we employed smaller space units in newspapers to expand the depth of coverage leading to an efficient media plan. Through tough and persistent negotiations, our contractors saved the government over \$25 million compared to marketplace media rates. This savings was accomplished despite formidable hurdles, such as a strong demand for television inventory. With excellent support from our contractors we exceeded communications goals against all targets, despite a competitive media marketplace and a \$10 million decrease in spending.

Prior to Phase III, a formal media research tool had not been utilized to measure the effect of specific media types. For Phase III, we have initiated leading-edge media research, econometric analysis, and measurement tools to measure media productivity, offer strategic and tactical accountability, and provide accurate, sophisticated media delivery data.

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3. *Effectiveness*

Improvements are constantly being made as we gain experience with the campaign, including the recommendation of a new media partner to maintain the "Freevibe" youth-targeted website. The campaign's family of websites has achieved 11.3 million page views in 1999 and the first half of 2000. The antidrug.com is available in six languages and provides specific tips and parenting skills to an average 120,000 visitors per month. Over 5,000 parents have signed up for bi-weekly parenting tips via e-mail since that feature became available in May.

4. *Integration*

ONDCP has a fully integrated approach to the media campaign through several important initiatives:

- (a) **Message Platform Flighting:** Media has been scheduled to coincide with key creative messaging platform strategies for both youth and adults.
- (b) **Branding:** The branding approach has been executed in media via the above flighting strategy, which has all media within a specific timeframe run a branded effort.
- (c) **Grassroots Initiatives:** Through a series of locally-focused programs such as MSG, Women's World Cup Soccer, and various local broadcast initiatives, the buying group has integrated strong media buys with highly visible local programs to reach the nation's youth and parents. These programs have also enlisted high profile sports stars to appear in PSAs for anti-drug messaging.

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Section III. Protecting the Public Purse – ONDCP’s Financial Oversight of the Media Campaign

- **ONDCP’s oversight capabilities are expanded through interagency agreements**

From the campaign’s inception, ONDCP has relied on other federal agencies to provide administrative contract support for the Campaign’s paid advertising contracts. We made this decision because of our conclusion that neither ONDCP nor the larger Executive Office of the President (EOP) had the contract administration capabilities necessary to support the extensive contracting efforts required to develop and implement this unparalleled public-health communications campaign. Administrative support provided by other agencies includes, among other things:

- ✓ Managing the contracting process through solicitation and selection.
- ✓ Awarding contracts.
- ✓ Overseeing the execution of contracts.
- ✓ Reviewing and paying vouchers against contract limits.

Although ONDCP uses administrative contract support from other agencies, **we have remained responsible for ensuring that all contractors’ performances meet the campaign requirements.** We have retained the responsibility of selecting contractors, ensuring all contracts (and modifications to them) are in accordance with ONDCP’s media plan, and rendering determinations on the reasonableness of media advertising costs.

Phase I Interagency Agreements

In November 1997, ONDCP entered into an interagency agreement with the Department of Defense Manpower Data Center’s Joint Advertising and Market Research Division, which handles the Department of Defense’s (DOD) Joint Recruiting and Advertising Program (JRAP). The agreement stipulated that DoD provide administrative contract support services for the campaign’s Phase I paid advertising efforts. JRAP’s contracting office, the Defense Supply Service, Washington, had an existing contract with a large advertising agency, Bates Advertising USA, Inc. (Bates), which could provide services for other federal agencies. As a result, the Defense Supply Service, Washington, issued a task order for Phase I advertising, with subsequent modifications, totaling \$23 million under the existing contract. ONDCP paid for the costs associated with running the advertisements, but DOD did not charge ONDCP for its efforts in administering the contract. We did not renew this agreement with JRAP because we always intended for DOD’s existing contract to be used only as a temporary vehicle to quickly initiate the campaign.

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Phase II Interagency Agreements

In April 1998, ONDCP entered into an agency reimbursable work agreement with the Department of Health and Human Services' (HHS) Program Support Center (PSC) to provide administrative contract support for the Phase II advertising efforts, including award of the contract to an advertising agency. In May 1998, HHS awarded a contract to Bates, the same contractor that was used for Phase I,¹⁴ for about \$120 million, which was subsequently modified to about \$140 million for additional media purchases.

Phase III Interagency Agreements

In December 1998, the HHS agreement was amended to cover Phase III paid advertising efforts through December 1999. HHS competitively awarded a contract for about \$129 million in December 1998 for Ogilvy and Mather for Phase III of the Campaign.¹⁵ The Phase III contract was issued for 1 year, with four 1-year options to cover the entire campaign. In January 2000, HHS and ONDCP entered into another agreement to cover the first option year under the contract, and HHS issued a contract modification for about \$133 million to Ogilvy and Mather to extend the contract through January 3, 2001. It is important to note that ONDCP appreciates the hard work of HHS as contract administrator. However, we are moving contract administration for increased cost efficiencies.

PSC provides administrative support services on a fee-for-service basis to HHS components and other federal agencies. To date, ONDCP has paid PSC \$941,290 for services supporting media campaign contracts. **Although ONDCP is using administrative contract support from other federal agencies, we continue to monitor all contractors' costs.**

- **ONDCP monitors all campaign expenses.**

While ONDCP has expanded our administrative and oversight capabilities through interagency agreements, **we ensure that only valid campaign expenses are paid.** We monitor all contractors' costs and spending. We execute this responsibility by attending planning meetings with contractors, obtaining periodic financial status reports, and reviewing and approving all campaign expenditures.

¹⁴ A sole-source contract was issued to Bates to prevent disruption in the advertising campaign as it transitioned from a 12-city pilot program in Phase I to a national campaign in Phase II.

¹⁵ A full-and-open competition was conducted to select the Phase III contractor.

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In August 1998, we hired a staff member (and an assistant in 1999) to oversee contracting and financial activities of the campaign, particularly the paid advertising contracts. His responsibilities include:

- ✓ Working with contract support personnel to ensure contract modifications and audits are appropriate.
- ✓ Working with contractors to ensure proper billings.
- ✓ Reviewing and approving all paid advertising expenditures (i.e., contractor invoices) for cost reasonableness, allowability, and allocability.

In August 1998, ONDCP entered into a separate contract with an accounting firm (Cox and Associates, CPAs, P.C.), to acquire financial management support. The accounting firm reviews the support for advertising and non-advertising invoices submitted by contractors, such as media vendor billings, and makes recommendations to ONDCP regarding payment approval.

ONDCP's advertising contractors use a private-sector, on-line accounting and account management system to produce the invoices sent to ONDCP for the campaign. The on-line system supports various aspects of the campaign, including planning, purchasing, and billing, and is used as the basis for the contractors' invoices that are sent through ONDCP to the HHS contracting office. This accounting and management system is used by most large advertising firms in the United States.

In addition to the invoice review support provided by the accounting firm, in March 1999, HHS' Program Support Center contracted, on behalf of ONDCP, with the Ad Council (via the accounting firm, Madison Avenue Management) to assist ONDCP in reviewing invoices for producing new advertisements, among other tasks. Subsequently, ONDCP adopted a review process for new advertising production in which ONDCP must approve all invoices on the basis of recommendations for payment by the Ad Council and its subcontractor, which are to review each new advertisement production invoice for cost reasonableness, allowability, and allocability.

ONDCP retains the responsibility for recommending the payment or nonpayment of all invoices to HHS.¹⁶ After obtaining recommendations regarding payment from the accounting firm and/or the Ad Council, an ONDCP official reviews the completed work and, as necessary, independently reviews the underlying support. For example, an ONDCP official reviews all of the support provided for a contractor's labor and out-of-pocket billings.¹⁷ ONDCP also reviews all invoices for cost reasonableness, allowability, and allocability before recommending payment or nonpayment. Once HHS approves payment, the invoices are to be paid, and ultimately, paid

¹⁶ Per contractual requirements, all invoice payments are provisional until final payment is made under the contract, since payments are subject to later audit. Thus, for example, until the contract is closed, each payment is subject to possible adjustments if additional information indicates that the initial payment was incorrect.

¹⁷ Out-of-pocket costs include media production, tracking, and evaluation...

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advertising expenditures are reported to Congress as part of ONDCP's monthly cumulative financial reports.

In order to closely track and identify detailed campaign utilization statistics, among other data, ONDCP directed the accounting firm to establish and implement a campaign tracking system. We were involved in the system's development, testing and implementation to ensure it met ONDCP's objectives. The financial management application of the system includes data on all paid advertising expenditures to date, for all three phases of the campaign. The system provides reports on paid advertising expenditures by numerous spending categories, including the type of spending (e.g., media purchases, media production, and labor); type of media purchased (e.g., radio, television, newspaper, magazine, and the Internet); and geographic location of advertising placements. Accounting firm officials use the system to assist with their review of contractor invoices. As a result, the data in the system are based on the advertising contractors' campaign invoices and supporting documentation (e.g., media vendor billings). This system is used to process paid advertising invoices.

- **ONDCP's financial management procedures have been extensively scrutinized by GAO**

ONDCP takes great pride in the GAO's recent conclusion that "ONDCP had processes in place to monitor and approve all paid advertising expenditures before paying vendors."¹⁸ This GAO review of the media campaign examined how ONDCP managed and disbursed funds for paid advertising.¹⁹ Principal findings of this July 2000 report include:

- ✓ "ONDCP has generally provided timely financial reports to Congress."²⁰
- ✓ "ONDCP had processes in place to monitor and approve all paid advertising expenditures before paying vendors."
- ✓ "ONDCP remained responsible for ensuring that only valid campaign expenses were paid."

In addition to this recently concluded GAO review of the media campaign, GAO is currently conducting a comprehensive audit of all financial aspects of the media campaign. ONDCP conducted an in-briefing with the GAO audit team on September 13, 2000. As is our practice, we will cooperate fully with the GAO team. We will also respond immediately to any GAO recommendations that will strengthen fiscal oversight of the funds appropriated by Congress for this vitally important public-health communications campaign.

¹⁸ See Principal Findings (p. 9) of GAO Report # B-281160 (July 31, 2000) *Anti-Drug Media Campaign*.

¹⁹ This GAO review of various aspects of the media campaign was required by the conference report and Senate Appropriations Committee Report for the Treasury and General Government Appropriations Act for 1999.

²⁰ The report notes (p. 9) that "ONDCP provided oral reports during the early months of the campaign and provided its first written report, covering the first 8 months of the Campaign, in May 1998. Since then, ONDCP provided timely written financial status reports on a monthly basis, except in October, November, and December 1998, and October 1999 because of delays in closing the accounting records for one fiscal year and opening records for the new fiscal year ... ONDCP is not required to submit reports in fiscal year 2000."

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- **ONDCP has provided Congress all the information required for thorough oversight of the media campaign.**

Over the past three years, Congress has held six hearings that specifically addressed different aspects of the media campaign. Those hearings were:

- **March 25, 1999.** House Appropriations Committee, Subcommittee on Treasury, Postal Service, and General Government. "*Oversight of the ONDCP Youth Media Campaign.*"
- **October 14, 1999.** House Committee on Government Reform, Subcommittee on Criminal Justice, Drug Policy, and Human Resources. "*The National Youth Anti-Drug Media Campaign.*"
- **October 21, 2000.** House Appropriations Committee, Subcommittee on Treasury, Postal Service, and General Government. "*The National Youth Anti-Drug Media Campaign and Entertainment Industry Outreach.*"
- **February 3, 2000.** Senate Appropriations Committee, Subcommittee on Treasury and General Government. "*Oversight of the Media Campaign of the ONDCP.*"
- **February 9, 2000.** House Commerce Committee, Subcommittee on Telecommunication, Trade, and Consumer Protection. "*The White House, the Networks, and TV Censorship.*"
- **July 11, 2000.** House Committee on Government Reform, Subcommittee on Criminal Justice, Drug Policy, and Human Resources. "*Evaluating the National Youth Anti-Drug Media Campaign.*"

Mr. Chairman, ONDCP has been particularly attentive to supporting your oversight requirements. A year ago (October 14, 1999), this subcommittee held an oversight hearing to examine the effectiveness and efficiency of ONDCP's administration of the media campaign. We were pleased to offer detailed testimony and address your specific questions during the hearing and afterwards (through the QFR process). Prior to the hearing, ONDCP responded to your September 29 request for documents by providing five boxes containing copies of invoices that HHS transferred to ONDCP for review. Your staff has had almost a complete year to review those invoices, yet not one question or irregularity has been brought to our attention.

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Section IV. Conclusion

We are grateful to Congress for the bipartisan partnership we have forged on this challenging and important issue. Uncommon commitment has been vital to our success. The 1999 National Household Survey on Drug Abuse found that youth drug use declined by nine percent between 1998 and 1999. This follows a 13 percent decline between 1997 and 1998. The 1999 Partnership Attitude Tracking Survey and 1999 Monitoring the Future Survey tell us that youth attitudes about drugs are changing. Adolescents increasingly disapprove of illegal drugs. An ever-growing number of young people are now using positive peer pressure to help friends stay drug-free. Our children get the message: "In America today you have a bright, drug-free future. Don't waste it with drugs."

The campaign is firmly grounded in science. The hallmark of this effort has been the integrity of its research base. Among those consulted by ONDCP in the design and implementation of the campaign are experts in behavioral change, drug prevention, teen marketing, and communications as well as representatives from professional, civic, and community organizations. The anti-drug media campaign is continually monitored and evaluated by the National Institute on Drug Abuse and its contractors, Westat Corporation, and the University of Pennsylvania's Annenberg School of Communications. ONDCP has programmed \$33.209 million over the past two years to support this front-loaded research and evaluation strategy.

We are creating an anti-drug environment. In less than two years, drug prevention has become extremely visible in the lives of America's youngsters and their parents. From network television advertisements to school-based educational materials, from youth soccer tournaments to Internet websites, and from community coalition activities to the YMCA and Boys and Girls Clubs, the campaign's messages reach Americans wherever they are.

Our management team continues to demonstrate its ability and commitment to the success of this campaign. ONDCP has overseen the design of this campaign and its successful execution. Throughout this process, our management team has maintained the highest level of fiduciary responsibility and ensured that the public purse is being protected.

Bipartisan congressional support is the backbone of the campaign. ONDCP appreciates the leadership of all members of Congress who have provided continuous oversight for the National Youth Anti-Drug Media Campaign. The commitment of Congress to this anti-drug campaign has made possible a seamless transition from a twelve-city test phase, to a year of nationwide testing and evaluation, and now a fully integrated media communications effort. We are grateful to all subcommittee members for your support of the campaign and our broader efforts to reduce drug use and its consequences in America.

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APPENDIX I : KEY NON-GOVERNMENTAL PARTICIPANTS

1. The Partnership for a Drug-Free America (PDFA)

The **Partnership for a Drug-Free America** is a private, non-profit, non-partisan coalition of professionals from the communications industry. Best known for its national, anti-drug advertising campaign, its mission is to reduce demand for illicit drugs in America through media communication. PDFA has generated more than \$2.8 billion in media exposure and created more than five hundred anti-drug ads. Its long-standing national campaign is the single, largest, public service ad campaign in history. For twelve years, PDFA's process was the paradigm for a public service campaign. No other organization was as successful in generating high-quality free ads and placing them pro-bono in the media.

PDFA is our campaign partner. Mr. Jim Burke, Chairman of the Partnership has been one of the strongest advocates for this public-private media campaign. The Partnership had concluded that intense competition, brought on by the splintering of the media, brought new economic realities to the media industry in the 1990s. It became quite clear to PDFA that the glory days of 1989 and 1990 - when its combined, estimated media exposure reached \$1 million a day - were simply not going to return. Indeed, with media donations to the Partnership down by more than \$100 million since 1991, the outlook for national media giving was not at all promising. The ONDCP campaign promised something unprecedented for PDFA's public service advertising effort: precise placement of the right ads, targeting the right audience, running in the right media, consistently, over time. With first-rate anti-drug messages produced by advertising agencies through PDFA's creative process, that is exactly what the campaign is now delivering. Presently, PDFA has developed 37 television commercials, 36 print ads, and 21 radio spots for parents ad 37 TV commercials, 35 print ads, and 35 radio spots for youth.

2. The Advertising Council

The **Advertising Council** is a private, non-profit organization, which has been the leading producer of Public Service communications programs in the United States since 1942. The Advertising Council's mission "*is to identify a select number of significant public issues and stimulate action on those issues through communications programs that make a measurable difference in our society.*" To that end, the Ad Council marshals volunteer resources from the advertising and communications industries, the media, and the business and non-profit communities for the public good. As the nation's largest producer of PSAs, the Ad Council has created more than 1,000 multi-media public service advertising campaigns addressing critical issues.²¹ During

²¹ Ad Council campaigns, characters and slogans are more than memorable -- they raise awareness, inspire individuals to take action and save lives. Campaigns the Ad Council has conducted include Smokey Bear and his famous words of wisdom, "Only you can prevent forest fires." (USDA Forest Service); "Friends don't let friends drive drunk" (DOT/NHTSA); McGruff the Crime Dog, who urged Americans to "Take a bite out of crime." (National Crime Prevention Council); and "A mind is a terrible thing to waste" (United Negro College Fund).

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1998 alone, the Ad Council advertising received \$1.2 billion in donated media in support of these efforts.

The Ad Council performs three crucial tasks in support of the anti-drug media campaign on a pro-bono basis.

- ✓ Oversee the National Media Match Clearinghouse.
- ✓ Production Review.
- ✓ Create an Anti-Drug Coalition Recruitment Campaign.

3. **Fleishman-Hillard**

Fleishman-Hillard is one of the largest and best-respected communications firms in the world. Fleishman-Hillard has a 53-year history of delivering results for some of the world's best-known brands like McDonalds, Wal-Mart, Levi-Strauss and United Airlines. It is no accident they represent nearly a fifth of the top 100 of *Fortune* magazine's annual list of "Most Admired Companies". Their network of eighteen fully owned domestic agency offices and more than 850 employees are ready to support the needs of this challenging campaign.

For the fifth year in a row, a 1999 Harris-Impulse Poll rated Fleishman-Hillard as having the best reputation of any of the major public relations firms. This year they also rated Fleishman-Hillard as the top agency in the Washington, DC market. It is also the only agency to be ranked either first or second for overall quality of service by the industry's leading trade publication, *Inside PR*, for nine consecutive years.

The Fleishman-Hillard team has managed research-based social marketing and communications efforts for non-profit organizations and partnerships to educate Americans about health and social issues ranging from safe food handling, improving nutritional content in Americans' diet, to protecting our children from danger online.

Fleishman-Hillard performs the following task for the media campaign:

- ✓ **Media outreach** to generate earned media placements of key campaign messages and improve accuracy in coverage of facts and issues to educate the media about youth drug use.
- ✓ **Partnerships and alliance building** with government, non-profit, professional, community and civic organizations designed to reach members of the target audiences with credible campaign messages and other programmatic activities to extend the impact of campaign messages.
- ✓ **Internet and other "new media" activities** including strategic analysis and use of "new media"; web site design and maintenance; coordination with Internet advertising; other

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Internet, CD-ROM, and other interactive activities capable of delivering high impact campaign messages or coordinating campaign stakeholders.

- ✓ **Outreach to and collaboration with the entertainment industry** including television, movies, music, interactive games for the purpose of encouraging media depictions that "denormalize" drug use and accurately portraying the negative consequences of drug use.
- ✓ **Graphics support and materials development** for press kits, fact sheets, publications, exhibits, and coordination of materials development by partner organizations.
- ✓ **Meeting and event planning** support on an as-needed basis.
- ✓ **Stakeholder communications** including a bi-monthly newsletter, update letters, meetings and briefings, interactive media, and other communications to keep stakeholders abreast of developments in the campaign and to generate further involvement and support.

4. Ogilvy & Mather

Ogilvy & Mather is one of the largest and most respected advertising companies in the world.²² Ogilvy's media company, "**MindShare**," is by far the largest media organization in the world (\$16 billion in worldwide billings). Ogilvy buys more national broadcast media in the U.S. than any other company and is the nation's number one radio buyer. Ogilvy's interactive company, **OgilvyOne**, is the largest purchaser of advertising in the world. The company is also third largest print buyer in the country. These factors give Ogilvy significant negotiating leverage, which results in the lowest possible market rates and access to substantial and unique media match opportunities. The Company also has considerable experience in social marketing campaigns having been responsible for the highly successful "America Responds to AIDS" campaign.

Ogilvy & Mather performs the following tasks in support of the anti-drug media campaign.

- ✓ Media planning and buying.
- ✓ Oversight, negotiation, and implementation of media match.
- ✓ Internet media planning and buying.
- ✓ Strategic planning and consumer research.
- ✓ Creative development for advertising "gaps."

²² Ogilvy's 377 offices in 98 countries service more Fortune 500 clients in 5 or more countries than any other advertising agency.

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- ✓ Development of advertising copy rotation plans.
- ✓ Trafficking all advertising materials to media outlets.
- ✓ Management of the Behavior Change Expert Panel.
- ✓ Management of six multicultural subcontractors.
- ✓ Management of three target audience specialist subcontractors.

In its role as the primary advertising contractor for ONDCP, Ogilvy offers added value to both ONDCP and PDFA in the following areas:

Media Planning and Buying. With buying leverage based on handling the world's largest aggregate media budget and widely acknowledged planning and buying expertise, Ogilvy can secure the highest quality media for the lowest possible price. For the taxpayer, this means that ONDCP saves 10 cents to 50 cents or more for every taxpayer media dollar invested (compared to topnotch media buyers, Ogilvy saved a documented 17.6 percent, or over \$25 million for comparable broadcast buys). If the match is included in the calculation of savings, the government is getting their media three-to eight times cheaper than a normal commercial advertiser. Moreover, Ogilvy's media plans and buys are creative and savvy, selectively identifying effective, intrusive and relevant vehicles from the plethora of media opportunities available to a contemporary advertiser

Ogilvy's superior media planning and buying enables PDFA to achieve greater visibility than they have ever had in their history, getting more television in better time slots, for instance, than any other agency could have achieved for them. In addition, PDFA's volunteer agencies have many more media vehicles with which to show off their talents. This range of vehicles is an unprecedented opportunity to build the individual portfolios of agency creative personnel and expand an agency's new business book and reel of great advertising.

Creative Executions. The pre-testing, planning, and research regimen that Ogilvy is working to put in place greatly raises the odds of developing more effective creative material that will help prevent drug use among youth. Pre-testing will help hone specific messages, while generating learning that will inform ad creators. Ogilvy manages an array of planning resources – from full-time agency planning staff to Target Audience Specialists to the BCEP – that provide invaluable input to the creative development process. No private sector marketer would mount an effort of this scope without conducting such extensive research.

Strategic Counsel. Ogilvy's strategic and planning resources not only have enhanced the creative message; they have also improved the development and implementation of the overall marketing plan. **Branding and fighting** are two useful examples.

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Branding is universally acknowledged by sophisticated marketers and leading advertisers as a way to ensure long-term, sustainable success, and to multiply the impact of advertising dollars. Branding increases consumer recognition of anti-drug messages; maximizes the impact of advertising dollars; creates synergy between advertising and non-advertising messages; and unites an organization's messages. Branding is a business proven concept. Ogilvy's four-month Brand Stewardship research process (which entailed interviewing adults and youth of all ethnicities) led to the adoption by ONDCP of "*The Anti-Drug*" as the campaign's brand. Phone call response to the new branded ads has been excellent.

Ogilvy's **fighting** plan will enable ONDCP to focus all elements of the integrated communications plan on strategic message platforms that have been identified by ONDCP's behavior expert panel. As opposed to the first two phases, each individual platform will receive sufficient media exposure to change attitudes and ultimately behavior. Moreover, disparate local coalitions and community efforts can work synergistically with this focused national campaign to increase the effectiveness of the effort. PDFA and its Creative Review Committee have endorsed this strategic approach.

Multicultural Resources. Both ONDCP and PDFA have gained access through Ogilvy to substantial multicultural resources, from target audience specialists to ethnic advertising experts. Indeed, Ogilvy's subcontractors have helped PDFA develop much of the work that has been created to address critical ethnic "gaps."

Accountability. Ogilvy has helped ONDCP fulfill its responsibility to the public and its mandate from Congress that the National Youth Anti-Drug media effort be a completely transparent operation. Through sophisticated and proprietary methodologies like the econometric analysis of Pathways Plus and tracking studies, Ogilvy is able to monitor the campaign's successes and failures – and refine and improve its execution.

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APPENDIX II: Media Match "Roadblock" Contents

1. Advertorials

- Good Housekeeping
- Better Homes & Gardens
- Life
- People (5/15/00)
- Sports Illustrated (5/8/00)
- Sporting News (5/10/00)
- Time (5/8/00)

2. General Market Adults

- Coach & Athletic Director
- Entertainment Weekly (5/19/00)
- Family Circle (5/9/00)
- Family Life
- Ladies' Home Journal
- National Geographic
- Newsweek (5/8/00, editorial)
- Prevention
- Readers Digest
- Scouting
- Time (5/15/00, editorial)
- TV Guide (5/13/00 & 5/20/00)

3. General Market Teens

- All About You
- Box
- DC Comics
- Game Pro
- Girl's Life
- Marvel Comics
- React (5/1/00, editorial)
- Scholastic (5/8/00, editorial)
- Seventeen (editorial)
- Skateboarder
- Sports Illustrated for Kids
- Teen
- Teen People
- WWF

4. African American Adults

- American Legacy
- American Vision
- BET Weekend
- Black College Today
- Black Diaspora (editorial)
- Essence
- Opportunity Journal
- The New Crisis

5. African American Teens

- Black Beat
- Blaze
- Right On
- Sister 2 Sister (editorial)
- Vibe
- Word Up

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6. Hispanic Adults

- Glamour en Español
- Hispanic Magazine
- Latina
- People en Español
- Ser Padres
- Vista

7. Hispanic Teens

- La Banda Elastica
- Cinemania
- Generation ñ
- Latin Girl
- Teen en Español

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**APPENDIX III: 51 Organizations Benefiting from Participation
in the National Youth Anti-Drug Media Match**

1. 100 Black Men
2. Administration for Children and Families/Health and Human Services
(*Parental Responsibility*)
3. Alanon/Alateen
4. American Symphony Orchestra League
5. America's Promise
6. Americorps
7. Big Brothers Big Sisters of America
8. Boys and Girls Club
9. Boys Town USA
10. Center for Juvenile and Criminal Justice/Justice Policy Institute
11. Center for Substance Abuse Prevention/Health and Human Services
12. Center for Substance Abuse Treatment/Health and Human Services
13. Centers for Disease Control
14. Children Now/Kaiser Family Foundation (*Talking with Kids about Tough Issues*)
15. Citizenship Through Sports Alliance
16. Community Schools for Excellence
17. Connect for Kids (*The Benton Foundation*)
18. Country Music Association
19. Education Excellence Partnership
20. Educational Testing Service
21. El Valor/Parents as First Teachers
22. Girl Scouts of the USA
23. Give a Kid a Hand/International Advertising Association
24. Harvard Mentoring Project
25. Hepatitis Foundation International

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26. Kids Peace
27. Library of Congress
28. Mentoring USA
29. Mothers Against Drunk Driving
30. Musician's Assistance Program
31. National Action Council of Minority Engineers
32. National Council of Teachers of Mathematics
33. National Council on Alcohol and Drug Dependency, Inc.
34. National Crime Prevention Coalition
35. National Fatherhood Initiative
36. National 4H Council
37. National Inhalant Prevention Coalition
38. National Institute on Drug Abuse
39. National Institute of Environmental Health Sciences
40. National Mentoring Partnership
41. Partnership for a Drug-Free America,
42. President's Council on Physical Fitness and Sports
43. Points of Light Foundation
44. Prevent Child Abuse America
(merged with) Policy National Committee to Prevent Child Abuse
45. Office of National Drug Control Policy
45. Recording Artists, Actors and Athletes Against Drunk Driving/Department of
Transportation
47. Save the Children USA (*Do Good. Mentor a Child*)
48. Substance Abuse and Mental Health Services Administration/ Health and Human Services
49. The Reiner Foundation/Families and Work Institute (*Early Childhood Development*)
50. US Department of Transportation/Drunk Driving
51. YMCA

Office of National Drug Control Policy
Non-Media Cost Analysis
April 27, 2000

Analysis of Compensation and Manpower

- Ogilvy and non-Ogilvy fees
- Focus on Media
- Views from Consultant and Industry
Trade Press
 - ◆ Jane Twyon, Worldwide Media Directors
 - ◆ Ad Age Surveys

A Study of Excess

- Across all components
- Out of line with industry
- Self propelled

Steak in The Ground

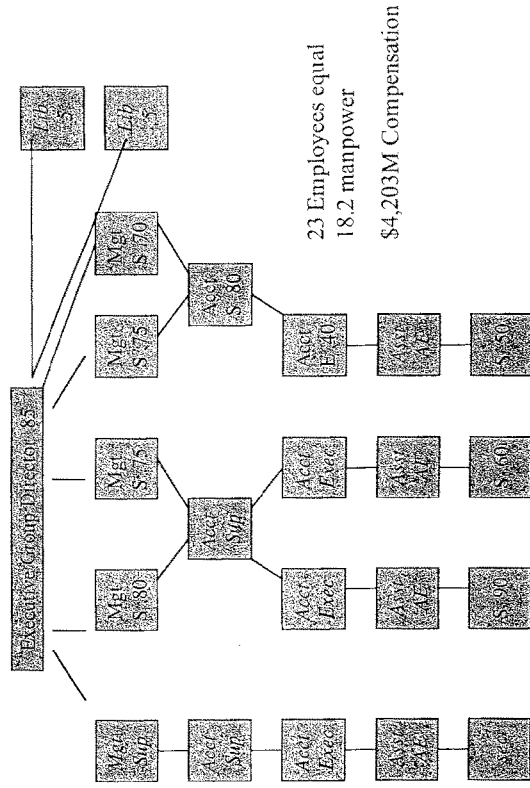
- Set assumptions
 - ◆ Methodology (Page 6)
 - ◆ Generous with assumptions
- Use industry surveys
 - ◆ Comparisons (Ex. 2 & 3)

Scope and Volume of Evidence

- Negates differences in assumptions
- Overrides misunderstood components
- Confirms reliability of report

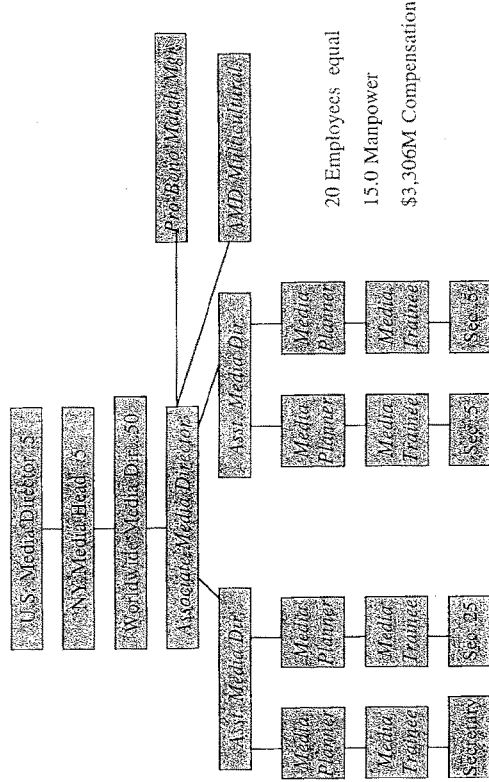
Need for Oversight Manpower Allocations Left Unchecked Will Multiply

- Account Management component



Staff Breeds Staff

Media Planning component



Ogilvy/OgilvyOne ONDCP

Advertising Force

- 247 Employees-full or part time
- 101.8 Manpower
- Not including Subcontractors

Non-Direct Manpower Excess

- Network Buying - direct manpower
 - ◆ 48% of working Media dollars vs. 8% of manpower

78

<u>Media Spending</u>	<u>Percent</u>
Network	49%
All Other	51%
Total	\$118MM



<u>Manpower</u>	<u>Percent</u>
Network	8%
All Other	92%
Total	101.8



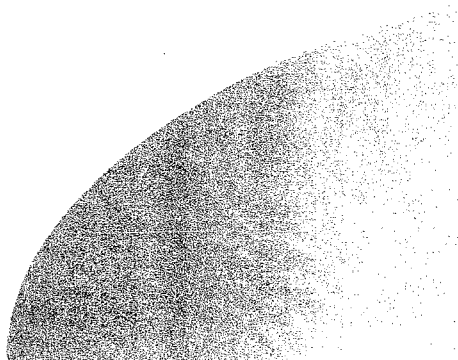
Historic Industry Practice - 15% Factor

- Historic Commission Rate for Full Service Agency
 - ◆ Includes all Manpower
 - ✦ Creative, Media, Finance, Research, Traffic and Production
 - ◆ Includes all Charges
 - ✦ Fringe, Overhead, Profit

Current Overview

- Agency business is highly competitive
 - ◆ Bigger advertising budget ⇒ Smaller ad agency fees

- All commission set with 15% check
 - ◆ ONDCP costs have no Check
 - ◆ Non-Media = 28%
 - ◆ Less Production/out-of-pocket = 22%



ONDCP Lack of Media Focus

■ Total Compensation

Ogily
Compensation



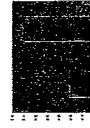
58% Media

42% Creative /Other

81

■ Buy Medium

Non-Traditional Media
Compensation



46% Direct Manpower

54% Non-Direct Manpower

Analysis by Component

- Report staffing
- Manpower cost vs. Ad Age
- Manpower cost by agency product
- Manpower cost vs. 3.5%
- Manpower salary cost

Highlights: Account Management

- 1/3 Compensation to Media \$1,429 (Page 8)

- 2/3 Compensation to Creative/Other \$2,774 (Page 9)

- ONDCP savings

- ★ Recommended Media compensation \$5.1MM
 - ¥ Cap Acco unt Management at 10% = \$515M
 - ¥ Save \$914M

Highlights: Brand Integration

- Expensive Manpower

- ◆ Average Salary
- ◆ Ogilvy \$246,690
- ◆ Ad Age CEO \$181,041

Highlights: Print Medium

- Value of Media not equal to value of compensation
- ONDCP cost is 238% above industry
 - ◆ Ad Age Survey \$578
 - ◆ Ogilvy Compensation \$1,952
- Commission rate of 23%
 - ◆ Versus industry 3.5%

Highlights: Network Medium

- 66% of cost non-Network Manpower (page 13)
 - ◆ Surprising with upfront buying lowering manpower needs

- ONDCP cost is 121% above industry
 - ◆ Ad Age Survey \$1,878M
 - ◆ Ogilvy Compensation \$4,158M

- Commission rate of 5%
 - ◆ Versus industry commission Rate of 2.2.%

Highlights: Local Broadcast Medium

- No leader
 - ◆ No 100% local management employee on ONDCP
 - ◆ 52 employees equal 17.9 manpower
- Value of Media not equal to value of compensation (15%/20%)
- 77% of cost is direct

Highlights: Local Broadcast Medium cont.

- ONDCP cost is 179% above industry
 - ◆ Ad Age Survey \$1,047
 - ◆ Ogilvy Compensation \$2,925

- Commission rate of 14%
 - ◆ Versus industry 3.5%

OgilvyOne

- High costs for execution
 - ◆ Working Media \$4,836M
 - ◆ Compensation \$2,674M(55%)

- Average industry Media cost 15%-20%
 - ◆ Includes Planning, Buying & Research

- Interactive creative costs are typically minor

- ONDCP is overspending by \$1.2M
 - ◆ @ 20% Media cost equals \$1,451M compensation

Multicultural

- More efficiently executed

- ◆ Compensation at 13%

- ◆ Ogilvy

\$ 544M

- ◆ Subcontractor

\$2,475M

Research

- Total \$4.4 Million
 - ◆ Ogilvy \$1,188M
 - ◆ Subcontractors \$3,212M
 - ◆ Not including Media Research (+\$591M)
 - ◆ Not including Brand Integration Group(+\$369M)
 - ◆ Total Research = \$5,360M

Summary Recommendations

- Recommendations to private sector clients
- Potential savings range \$8-\$15 million
- Need to realign staffing to industry standards

ONDCP Set Constraints

- All Manpower assigned to a product
 - ◆ Media
 - ◆ Creative/Other

- All Manpower Include
 - ◆ Subcontractors
 - ◆ Internet

Media Constraint

■ General Media

- ◆ Limit compensation to \$5.1MM (\$97 @ 3.5% Commission)
- ◆ Fee is reviewed annually
- ◆ Fee does not change unless budget change affects planning/buying manpower
 - ◆ New medium, geography or target

Suggested Solution

■ Ogilvy discussion

- ◆ All manpower to be assigned
 - ✦ Media
 - ✦ Creative
 - ✦ Internet
 - ✦ Multicultural
 - ✦ Research

Suggested Solution cont.

■ Compensation agreements

- ◆ All Media manpower costs capped at \$5.1 Million
- ◆ Limit Creative/Other to 50% of Media cost
- ◆ Internet 20% of net working media
- ◆ Multicultural 10%- 13% of net working media
 - ✦ Limit Ogilvy 15% of compensation
- ◆ Research manpower \$4.4 Million

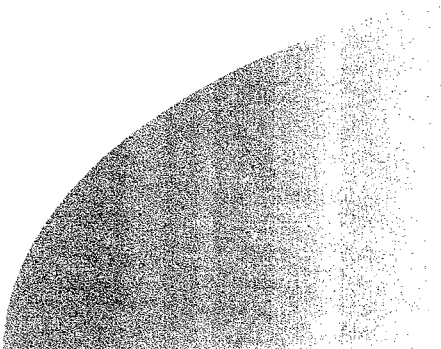
Suggested Solution cont.

■ Budget Results

◆ All manpower to be assigned	<u>Limit Compensation</u>
✦ Media	\$5.1
✦ Creative	\$2.6
✦ Internet	\$1.5
✦ Multicultural	\$3.0
✦ Research	<u>\$4.4</u>
¥ Total	\$16.6M

¥ Savings vs. current cost \$ 9.4

¥ Not including Production/out-of-pocket @ \$8.1M



Issues

- Government contract requirements
 - ◆ Accomplish through discussion with Ogilvy
- ONDCP and Ogilvy need discipline
- Need for Ogilvy to accept major change
 - ◆ Ogilvy won media business showing a single media buy could reach several targets and thereby create extra efficiencies

Summary

- The savings range of \$8.5 to \$14.8 million is reasonable to expect. The agency can always add to staff to help ONDCP better perform and at the same time increase the agency revenue. **The point is not in justifying the staffing, but in finding ways to realign the manpower to industry standards.**

ONDCP Non-Media Cost Report

The following will report on the findings of the analysis on agency compensation (non-media costs) and manpower (labor hours) to the Ogilvy advertising agency and the total compensation including all Ogilvy and non-Ogilvy fees that make up the overall compensation charge to the ONDCP. Although the focus of this report will be on the Media fees (Media fees include all manpower costs related to the planning and buying of working Media), where possible, comments will also cover the fees of the other components (Creative, Production, Subcontractors etc.).

The findings detailed below will highlight three major problem areas that are most common when examining each Component and the overall costs.

1. The total compensation charge of \$34,135,123 (28% of Working Media billings) is very high (+86%) compared to the traditional industry norms of 15% commission (commission is the percent or cost vs. the working Media budgets) on Media billings.
2. There is a significantly large percentage of costs going toward Creative/Other manpower (42% of total) on what is mainly an ONDCP *Media planning and buying* assignment. Additionally, there is a large percentage of costs assigned to non-direct manpower (non-direct are the support/management manpower) rather than the core direct manpower (the media buyers). These high costs are compounded by the additional expense of \$5,827,000 paid to Subcontractors (Multicultural/Research).
3. The high numbers of people working on the business, allocation of senior manpower, redundancy of manpower and cost of manpower versus the industry.

This report does not presume to direct the exact manpower or costs to be realigned, but it will identify all areas that need to be reexamined and it will give benchmarks for fair compensation. See example below.

Benchmark Ranges of Savings from Compensation (cost vs. working Media budgets)*

The recommended fee for all Media services is \$5.1 million. Total Ogilvy compensation savings are estimated to range from \$8.5 to \$14.8 million.

Areas of Non-Media costs	Compensation Current \$	By Area Estimated Saving in Millions	Recommended Savings
Media	\$10,182	\$3.4 to \$ 7.1	\$5.1
Creative/Other	\$ 7,324	\$3.9 to \$ 5.8	
OgilvyOne	<u>\$ 2,675</u>	<u>\$1.2 to \$ 1.9</u>	
Sub Total Ogilvy	\$20,181	\$8.5 to \$14.8	
Total Savings			
Subcontractors**	\$ 5,827	NA**	
PDF/A Production***	\$ 8,007	NA***	
Out-of-pocket	<u>\$ 120</u>		
	\$34,135		

* The Media area for potential savings was determined by using the AdAge compensation report (Ex 2) and increasing the fee by 50% for match Media. The Media area for the least savings was determined by using a 3.5% commission (the highest industry standard for a large complex assignment) on Media and doubling the fee for matched dollars. Creative/Other was set at 50% of Media costs. OgilvyOne ranged from a 15% Media commission to a least savings scenario which doubled the fee for matched dollars. The recommended Media savings allows for a 3.5% commission and a 50% increase in the fee for matched Media.

**The Subcontractors (\$5.8 Million) need to be evaluated as part of the total compensation costs.

***The Production (produce ad materials) costs (\$8.0 Million) need to be evaluated by a specialist in this area.

*ONDCP COMPENSATION REVIEW*METHODOLOGY FOR ANALYSIS

Analysis was made based on agency and industry published information as well as first hand current experience as a consultant directing advertisers in their review to find new media agencies and negotiating the contracts and compensation fees. To complete this project it was necessary to make arbitrary assumptions in order to analyze the data. It is the scope and volume of the findings that make the conclusions valid. Below will explain the assumptions:

- Media budgets were increased 50% to reflect the increased cost needed to manage the matched dollars. This is an estimate on the high side, with the following rationale:
 1. Most of the matched media buying is done at the same time as the initial buy and therefore no added cost should be given to this function.
 2. This is not unlike every advertising agency that manages Media "added value" or promotional offerings, which are required today in Media execution, and receives no added compensation.
 3. Ogilvy is in Year II of managing the ONDCP Media business and much of the organization, systems, agreements and negotiations were set in Year I.
 4. Non-direct manpower is not greatly impacted by match Media buys.
- All manpower is assigned to either the Media or Creative/Other.
 - This recognizes that these are the two advertising agency products.
 - All other work is done to support these products.
- Account Management (all non-direct) compensation has been divided (one-third/two-thirds) between Media and Creative/Production. This decision was made to reflect the reality that Media has its own managers to execute the ONDCP Media work.
- Finance (all non-direct) compensation has also been divided (two-thirds/one-third) between Media and Creative/Production. This decision was made to reflect the large number of Media bills that are generated in this program and that the assignment is mainly a Media responsibility. Media department staffing does include a title of Billing Coordinator in Spot Buying, but this is usually a Media function for sorting out discrepancies with the stations vs. a Finance Accounting function.
- When estimating commission norms, published data was used as well as the consultant's estimate of the highest industry fee for a complex Media assignment.
- The Creative/Other compensation is recommended to be no greater than 50% of the Media fee in recognition that this is a *Media assignment*.
- All non-direct components (components are the manpower groups identified by function in the Ogilvy manpower report) that were charged to the Media product for analysis (Finance, Account Management, Media Research) were allocated based on weighting by Media budgets (Ex. 7).
- Salaries were evaluated based on published information. The job titles were not always comparable and therefore the highest title (most expensive) has been identified in this review.
- Manpower was established at 2080 hours equaling one full time employee.

ONDCP COMPENSATION REVIEW

Exhibits Attached

Published information:

- Exhibit 1-Year 2000 Project Plan for Advertising Contract 282-99-0010
- Exhibit 2- Ad Age February 22, 1999 Media Buying Compensation Rates
- Exhibit 3- Ad Age December 6, 1999 Salary Survey

Created Exhibits

- Exhibit 4 – Ogilvy Compensation by Media and Creative/Other
- Exhibit 5 – OgilvyOne Compensation by Media and Creative/Other
- Exhibit 6 – Ad Age and Consultant commission estimates
- Exhibit 7 – Media manpower vs. working Media budgets
- Exhibit 8 – Cost per manpower and Ad Age salary survey

ONDCP COMPENSATION REVIEW

REPORT ANALYSIS

Overall CompensationIndustry Background

The advertising industry ran for many years on a 15% commission basis (of Media spending) to cover all advertising agency costs. Creative production was billed separately, but manpower (labor hours) for Creative, Traffic, Market Research Planners and in-agency production department was included within the 15% charge.

Current Industry Business

Today, advertisers are controlling costs by establishing fees, fee plus commissions or fee plus incentive compensation agreements. These arrangements have proven to provide fair compensation while controlling/lowering the past 15% commission.

- All fees are set with a "check" to the overall costs versus the historic 15% commission.

Media departments have separated themselves from the core agency and are established as independent Media Management Companies. Ogilvy Media will be joining JWT to form MindShare, a Media Management Company. This is a very competitive business and the Media Management Companies win business by offering lower fees to clients.

- Fees can be less than 1%
 - a large network buying assignment
- Fees can be as high as 5% for difficult local or small budget assignment
 - a complex retail business with a small budget
 - movie business with a large budget executed in a long list of television/radio markets

The average high-end media compensation on large accounts with a Media mix similar to the ONDCP is between 3%-3.5%.

- This type of fee would include all planning and buying on a complex account (complex equates to a piece of business that is heavily local buying with in-market promotions, many last minute Media changes across multi-media, or special needs for local dealers or franchise businesses).
- The fee includes all manpower costs, overhead and profit.
- The range reflects actual compensation paid to Media Management Companies (separated media agencies) in recent searches by advertisers for new Media Agencies.

Because of the highly competitive environment, Media Management Companies continually drive these rates down. The *Ad Age* article dated 2/22/99 (Ex. 2) shows 1999 buying rates of 1% for network TV to

ONDCP COMPENSATION REVIEW

5% for spot radio (spot means local market radio). Although planning was not included, Media Companies were only getting 1% or less for this work on a large AOR (agency of record) account and the direct clients were getting the planning included in these fees. Today, these rates reflect buying and planning for each medium.

The Ad Age recommended fee and the highest current Media agency fee (3.5%) both fall short of the current ONDCP Media fees:

<u>Ogilvy Media Budget \$96.888M (Ex. 6)*</u>	<u>Total Media Compensation</u>	
	<u>Ad Age</u>	<u>3.5% Fee</u>
Weighted Compensation % by Media Budget	2.2%	3.5%
Required Total Media Compensation	\$ 2,085M	\$ 3,391M
Plus 50% for Matched Media	\$ 3,127	\$ 5,087
Ogilvy Media Fees	\$10,182	\$10,182
% Difference	+226%	+100%
(Dollar Difference)	(\$ 7,055)	(\$ 5,095)

*The Ad Age Survey included traditional Media. The difference between the total Media budget of \$117.9 is the omission of internet, ethnic and grass root budgets which are managed by specialists.

As stated earlier, the recommended compensation would be \$5.1 million (Saving \$5.1). This reflects the high side of a competitive agency fee structure (3.5%) and a generous accounting for matched Media (+50%). The ONDCP is paying \$5 million more in compensation than the high end advertiser would agree to spend.

Analysis of Total Compensation and By Component

The report will cover four (4) major areas:

1. Non-Media Compensation
2. Ogilvy Compensation
 - Detailed by manpower component
3. OgilvyOne Compensation
4. Subcontractors Compensation

The report will analyze each component across many variables. This is standard practice in a cost review.

Variables show 4 perspectives.

Percent to total non-Media compensation
 Percent to Ogilvy/OgilvyOne compensation
 Percent to Media Ogilvy Media budget
 Percent to Ad Age Surveys

In each perspective reviewed in the report the ONDCP is shown to be paying higher than the industry.

1. Non-Media Compensation of \$34,135 Million – 28% of Working Media

(Monies to purchase time and space media)

- A “cap” should be set on the ONDCP compensation fees and that this constraint should be a reasonable percent of total working Media dollars (\$117,864MM).

-The compensation is broken down to 59% Ogilvy (\$20MM) and 41% other contractors/costs (\$14MM). A constraint may need to be set for each area.
 - \$8,127 Million is allocated to production/out-of-pocket costs. This will need a separate evaluation and may need a separate “cap”. The ONDCP has a separate consultant, through the Ad Council, that is a specialist in the area.
 - A “capping” on Ogilvy/Subcontractor (\$26,008M) fees would help to control excess and duplication of work

Example	
Media Budget	\$117,864M
7.5% Commission	\$ 8,840
+50% Match Compensation	\$ 13,260
Ogilvy and Subcontractor Fees	\$ 26,008

- The example is a fair “cap” based on the trends of Advertisers to lower the *full service* agency 15% commission rate, the understanding that ONDCP does not require a full service agency and the fact that the trend for lowering compensation is especially evident with larger Advertisers.

- Most agencies allocate their greatest cost to the creative department.
- Creative department accounts for 1.1 in manpower and 3% of the ONDCP salary costs.
- A Media assignment for planning and buying the \$117,864 would have a fee between 3% and 3.5%.
- The matched Media increase of 50% is high (see methodology for analysis)
- There is inefficiency built in by the number of employees working on the ONDCP account at Ogilvy.
 - The Ogilvy and OgilvyOne manpower is a force of 247 employees working part or full time to maintain 101.8 in manpower on the ONDCP account.
 - 53 employees are working 100% for the ONDCP.
 - There are 12 Secretaries that make up 4.55 in manpower.
 - 85.8 translates to \$1.4 million in Media spending per manpower.
 - Broadcast Network buying budget is \$57 million (48% of total Working Media) and the Broadcast Network department allocates 8.1 in manpower to the ONDCP (less than 10%).

ONDCP COMPENSATION REVIEW

2. Ogilvy Compensation Total \$17,506 M - 51% of Non-Media Compensation

• *There is an overall imbalance between the Media and Creative/Other products when evaluating this major Media assignment.*

	Compensation	%
Media	\$10,182M	58%
Creative/Other	\$ 7,324	42%

• The imbalance reflects the number of employees and the higher salaries paid for non-Media manpower (Ex. 4&8).

Component	Average Salary per MP	# Manpower
Research Planning	\$144,002	3.5
Media Research	\$ 73,022	2.7

• The Ogilvy compensation calculation for overhead is very high. A multiple of three (3x) needs to be used against the employee salary to meet the total compensation (Ex. 1).

Salary x 3 for Commission	Salary to Compensation	Percent /CumeS
\$5834	\$5,834M Salary	\$ 5,834M
<u>x3</u>	\$1,177 Fringe	+20% \$ 7,011
\$17,506 M	\$8,834 Overhead	+126% \$15,845
	\$1,661 Fee	+1% \$17,506

• The Media Management Company high for overhead is a 120 index to total salaries. It is understood that this high-end overhead includes a profit for the agency that is separate from the "fee" profit attached to the total compensation.

- Recent reviews to select a Media Management Company show overhead ranging from 95% to 120%

- Calculating Ogilvy compensation as a consultant we would view the following:

	Ogilvy	Industry	Difference
Salaries +Fringe	\$7,011M	\$7,011M	
OH Costs	\$8,834	\$8,413	\$421
OH index	126	120	

To carry the extra \$421,000 in overhead, the ONDCP receives less in Media spending and/or manpower.

• Ogilvy always allocates 5% or more of manpower for an employee. This is costly when allocating senior managers to the ONDCP business. The industry typically allows for allocations that are 1% or greater.

ONDCP COMPENSATION REVIEW

Ogilvy Compensation and Manpower by Component

Account Management

Direct Cost \$1,401M • Total Cost \$4,203 • % of Fee 24% • # Manpower 18.2

This component has a large expensive staff on the ONDCP business. This is one of the major areas for potential savings due to the following:

- 24% of the Ogilvy fee is going to account management with a staff of 23 employees (e) equaling 18.2 in manpower (mp)
 - Funding more employees than the Media planning department (20e)
 - Funding more manpower than the total local buying group (17.9mp) which traditionally have the highest levels of manpower to manage buying 100+ local markets.
- The tiered system in this department gives each Management Supervisor (4.0mp) an Account Executive (3.40), an Account Supervisor (2.80), an Assistant Account Executive (4.0) and a Secretary (3.0). That's four levels and does not include the Executive Group Director (.85mp) or two Librarians (.10mp). This system creates work and is costly.
- The cost per manpower is very high (Ex. 8).
 - The Ad Age reported salary for an Account Executive is \$48,792.
 - ONDCP is spending \$76,984 per manpower Account Management, which is 58% above the industry average.

In order to analyze costs it is necessary to assign the Account Group to an advertising agency product (Media/Creative) for compensation analysis. This review indicates that there are too many Account Managers in relationship to the total manpower for a product.

Account Management vs. Total Media Compensation

This analysis assigns one third of the manpower to Media

Manpower	6.2
Salary	\$ 476,378M
Total Compensation	\$ 1,429,134
% Total Media Cost	14% (Ex 4 - \$10,182M)

- Given the fact that the Media department has their own management, the recommendation would be to limit the number of account people needed on the account in relation to the Media costs.
- Lowering the number of Account Management manpower will not only lower salary costs but will also decrease time spent by Media staff "reporting" to Account Management. It will stop the "staff breeding staff" trend on the business.

ONDCP COMPENSATION REVIEW

- A savings of \$914,000 can be found when a constraint is placed on the Media total fees and the percentage of Account Management manpower.

Recommended Media Compensation	\$5,100M
Lower Account Management Percent Cost to 10% of Media	\$515M
Saved versus Current (\$1,429)	\$914 (94%)

- Had the assignment been placed with a separated Media Management Company, the ONDCP staff would consist of one "the buck stops here" Account Manager and one Creative Account Manager for the interface of the work.

Account Management Creative/Other Compensation

This analysis assigns two thirds of the manpower to Creative/Other.

Manpower	12.0
Salary	\$ 924,735M
Total Compensation	\$ 2,774,205
% Creative/Other Cost \$	38% (Ex 4 - \$7,324M)

- Ogilvy needs to realign its forces to meet the total compensation requirements and account needs.
 - This analysis recommends keeping all non-Media costs to 50% of the total Media charge.
 - The Account Management team is only one department in the group of Creative/Other.
 - Account Management represents the largest cost and manpower (38% of cost and 43% of the total 27.7mp) in the Creative/Other.

Creative

Direct Cost \$189M • Total Cost \$567 • % of Fee 3% • # Manpower 1.1

This component is staffed with the second most expensive manpower salary (Ex. 8):

- This report can not evaluate the manpower for creative but can detail some findings.
 - There are 10 employees in the Creative group that total 1.1 in manpower.
 - The ONDCP is spending \$172,069 average per Creative manpower and this is 49% higher than the Ad Age Salary Survey (Ex2).

<u>Ad Age</u> Salary Survey for agency Creative Director	\$115,668
Ogilvy salary average Creative manpower	\$172,069 (+49%)

ONDCP COMPENSATION REVIEW

Brand Integration Group

Direct Cost \$123M • Total Cost \$369 • % of Fee 2% • # Manpower .5

The concern with this group is the cost per manpower. The Brand Integration Group has the highest salary at Ogilvy.

- There are 4 employees at 10% (mp) each totaling 1040 hours to equal one-half of an employee manpower.
- The low manpower and low compensation hide the fact that these are extremely expensive employees.
 - The salary is \$246,690 per employee. This compared to the Ad Age Salary of the agency CEO's (\$181,041) is high.
 - The realignment of non-Media costs will need to evaluate both the numbers of personnel assigned to the business and the salaries for the departments.
 - There needs to be a balance between the fees paid Subcontractors expertise and the Ogilvy managers. There seems to be a duplication of effort in this area.

Finance

Direct Cost \$349M • Total Cost \$1,047 • % of Fee 6% • # Manpower 6.2

This component, like the account management group, needs to be assigned to Media and Creative/Other advertising products. The following are some general findings.

- Five of the 6.2 in manpower are full time employees: Client Financial Executive, Budget Coordinator, Administrative Assistant, Manager of Government contracts, Assistant Contract Administrator.
- There is a total of 20 employees working on the business with 15 representing 1.2 in manpower.
- The average salary is \$56,236 and this is 39% below the reported CFO salary of \$91,913.

Many Media Management Companies include the Finance costs in the overhead fee. The 5%-7% cost to each core area is expensive when compounded with the very high overhead being charged.

Finance Media Compensation

This analysis assigns two-thirds of the manpower to Media and one-third to Creative/Other

	<u>Media</u>	<u>Creative/Other</u>
Manpower	4.0	2.2
Salary	\$ 230	\$ 119
Total Compensation	\$ 691	\$ 356
% Total Media Cost	\$ 7%	5%
	(Ex 4 - \$10,182M)	(\$7,324M)

10
Worldwide Media Directors, Jane Twyon
April 21, 2000

ONDCP COMPENSATION REVIEW

Media Planning

Direct Cost \$1,102M • Total Cost \$3,306 • % of Fee 19% • # Manpower 15.0

The time allocated by senior manpower and duplication of effort would identify this group for realignment.

- Several senior Media experts have 5% or greater time assigned to the ONDCP.
 - 5% for the US Media Director, 5% for the NY Media Head and 50% for the Worldwide Media Director all seem high.
 - These are important people and expensive employees. They work on all of the Ogilvy Media business and have a major role in new business.
- Many Media Management Companies count the senior management in overhead.
- The full time Associate Media Director for Multicultural Media may be excessive considering the over \$2 million in subcontracting for this effort (see analysis of Multicultural compensation).
 - There may be duplication of effort.
 - Subcontractors may not be doing their job.
- Here again, we see a tiered department with each assistant Media Director having 2 Planners and 2 Trainees and together sharing 4 Secretaries (135mp).
 - **One of the major reasons Ogilvy won this account was by showing how a single Media buy could reach the goals for several targets and thereby create extra efficiencies. This same thinking needs to apply to the staffing for Media Planners.**
 - It is recognized that more planners are needed when they have to service a large Account Management team.

The Media planning group represents 32% of the total Media fee. This is high when evaluated across working Media areas (Print, Broadcast, OOH etc).

- The Media Planning group needs to allocate its manpower across all working Media areas. Media Planners plan and buy print Media and oversee the planning on all other Media.
- This is the second year of managing the ONDCP Media account and there should be savings versus a start-up year.

ONDCP COMPENSATION REVIEW

Print Planning/Buying

The cost to execute this program is greater than its value in the Media program (11% vs. 19%).

• Assuming this Planning group plans and buys for print, this analysis has assigned 50% of the total cost to Print Planning/Buying.

	<u>% of Media Plan</u>	<u>% of Media</u>
	<u>Spending - \$97MM</u>	<u>Compensation - \$10,236</u>
Print \$ 10,604	11%	
Compensation cost: \$1,951		19%
(\$1,653 direct/\$298 non-direct)		

The compensation costs for print planning/buying are 238% higher than the average industry and they need to be realigned

	<u>% Compensation</u>	<u>Ad Age</u>		
	<u>Ad Age Survey</u>	<u>Comp</u>	<u>Ogilvy Fee</u>	
Magazines	1.8%	\$ 97M		
Newspapers	3.5%	\$182		
Total Print	2.6	\$279		
Plus Planning	1.0	\$106		
Total		\$ 385		
Plus Match buying		\$ 578	\$1,952M	+238%

- The Ogilvy fee represents a 23% commission on Media (\$10,604 +50%).
- As previously stated the industry would not pay more than 3.5% in compensation.
- It is understood that the newspaper "backroom" costs have been outsourced by most major agencies. The cost for the work is FREE. These companies are being compensated from the Media not the agency.
- This analysis has added 1% for planning on to the Ad Age Buying Survey in order to give a comparison that would favor Ogilvy. This is not normally done.

Media Planners allocated across other Media (Network, OOH etc.)

This compensation represents 38% of the total cross component costs (ExT), which is high when considering the non-direct category includes: Account Management, Finance and Media Research and Media Planners.

<u>Component</u>	<u>Salaries</u>	<u>%</u>
Non-direct	\$ 904	62 %
Planners Non-direct	\$ 551	38 %
Total	\$1,454	

ONDCP COMPENSATION REVIEW

National Broadcast

Direct Cost \$475M • Total Cost \$1,425 • %of Fee 8% • # Manpower 8.1
(NY7.2/Chi.9)

Two potential problems are evident: (1) the high expense and attention of some senior management on an upfront, once a year, network buy (2) the lack of attention from the negotiator. This manpower allocation makes it difficult to understand who the key person is on the ONDCP business.

- There is 1.20 senior managers on this business, but no one senior manager is 100% responsible for the account.
 - The President Broadcast (5%), Director of Media (10%), The Associate Media Director (30%) and a Broadcast Supervisor (75%).
- The greatest attention to the business comes from 4 trainees and a Data Manager all at 100%, which totals 5.00 in manpower
- That leaves 1.9 in manpower in New York to act as Negotiators on \$58 million dollars of national media.
- There is a major difference between the manpower cost for a Chicago Network Buyer and the average NY Network Buyer (Ex.8).

<u>Cost Per Manpower</u>		
NY	\$60,305	+49%
Chicago	\$40,540	

- The Chicago operation is difficult to assess since their function is unknown. Therefore, for purposes of this analysis, we have folded this group into the NY Network buying group.

The majority of cost (66%) for the Network group comes from non-Network manpower (Ex 6). These costs need to be realigned or reassigned.

- Network buying is mainly managed in an "upfront" buy that occurs once each year. Network Planning is usually developed once each year. Given these facts, this area should not have a high non-Network manpower allocation.

	<u>Salary Costs</u>	<u>%</u>
Network	\$ 475 M	34%
Planners	\$ 369	27%
Non Media	\$ 542	39%
Total	\$1,386	
Total Comp	\$4,158	

- For purposes of this analysis the non-network allocation was determined by working Media budgets and therefore forced costs to be assigned into this component.

ONDCP COMPENSATION REVIEW

Compared to the Ad Age Survey, network compensation exceeds the industry average by 121%.

	% Compensation	<u>Ad Age</u>		
	<u>Ad Age Survey</u>	<u>Comp</u>	<u>Ogilvy Fee</u>	
Television	1.0%	\$ 475		
Radio	2.0%	\$ 202		
Total Network	1.2%	\$ 677		
Plus Planning	1.0%	\$ 575		
Total		\$ 1,252		
Plus Match buying		\$ 1,878	\$4,158	+121%

- The Ogilvy fee represents a 5% commission on Media (\$57,620 +50%).
- The Ad Age/plus 1.0% planning fee is 2.2%.

Media Research

Direct Cost \$197M • Total Cost \$591 • % of Fee 6% • # Manpower 2.7

Ogilvy Media Research has the second highest average salary per manpower and has assigned 2.7 in manpower to the ONDCP business. The salary cost and manpower allocation need to be assessed versus other Media costs.

- The manpower salary at \$73,022 is almost the same as the Media Planner at \$73,489 (Ex. 8).
- The Ad Age survey shows a rate of \$77,800 for a Media Director.
- The value of an extra Media Planner (total 15mp) needs to be assessed versus the value of the Media research manpower (2.7mp)
- The total 2.7 manpower is high considering many agencies employ only one or two experts in this department and they service all clients.
- There is a trend in large Media management companies to increase this department.
 - Major Media Agencies are expected to fund propriety research tools. These tools should save manpower time and produce a better media program.

Non-Traditional

Direct Cost \$186M • Total Cost \$558 • % of Fee 3% • # Manpower 4.2

The imbalance between the direct and the non-direct salary costs and a tiered organizational department are increasing the total compensation and need to be evaluated.

- Less than half of the costs are direct .

	Total Salaries	%
Non-Trad	\$ 185M	46% Direct Costs
Non-Dir Planners	\$ 88	22%
Non-Dir Other	\$ 127	31%
Total	\$ 400	
Total Comp	\$1,201	

ONDCP COMPENSATION REVIEW

- The manpower allocation shows 4 levels of employees in this department.
 - Associate Media Director (.25 mp), Asst. Media Director (.75 mp), 2 Planners (1.60 mp) and 2 Assistant Planners (1.60 mp).

The compensation for this department is high at 9% of the Media cost and the cost is 15% above the Ad Age example.

- The compensation of \$1,201 generated a 9% commission fee on Media spending (\$13,850).
- The Ad Age survey shows a 15% premium being paid to this department.

	<u>% Compensation Ad Age Survey</u>	<u>Ad Age Comp</u>	<u>Ogilvy Fee</u>
Total Non-Traditional	4.0%	\$ 554M	
Plus Planning	1.0	\$ 138	
Total		\$ 692	
Plus Match buying		\$ 1,038	\$1,201 (+15%)

Buying (local buying group)

Direct Cost \$746M • Total Cost \$2238 • % of Fee 13% • # Manpower 17.9

This is a component with a lot of manpower, but no single employee having oversight leadership responsibilities.

- 52 employees are in some way working on the local buying assignment for the ONDCP and this nets to 17.9 in manpower.
- No Spot Buying Management employee is 100% responsible to the account.
 - Associate Director at .75 is still 25% away from full attention to the ONDCP business.
 - Out of the 17.9 total manpower, 1.05 senior level managers are on the business.
 - The remaining staff are Buyers (Senior, Local, Temp), Trainees (5.1) Secretaries (.5) and Billing Coordinators.

The cost to run the business is greater than the value of the Media and the 14% commission rate is high for the industry.

- The Media expenditure equals 15% of the total Media plan, but it is costing 20% of the total Media compensation to execute the program.

	<u>% of Media Plan Spending \$14,414</u>	<u>% of Media Compensation \$10,236</u>
Network \$ % of Total Media Plan	15%	
Total Compensation cost		20%

ONDCP COMPENSATION REVIEW

Unlike many other components, the cost for this group is directly controlled by the group itself.

	<u>Manpower Costs</u>	<u>%</u>	
Local	\$ 746M	77%	Direct Cost
Planners	\$ 135	14%	
Non Media	\$ 94	9%	
Total	\$ 975		
Total Comp	\$2,925M		

A compensation of \$756 should cover costs and Ogilvy profit for this Media expenditure.

- A \$756M fee equaling a 3.5% commission for this buy would be high in the industry and would generate a savings of \$2,169.

<u>Media Spot Billings</u>	<u>\$14,414</u>
3.5% Fee	\$ 504M
+ 50% Match	\$ 756 Commission

The Ogilvy compensation is 179% above the industry average and equates to a 14% commission on Media expenditures.

	<u>% Compensation</u>	<u>Ad Age</u>		
	<u>Ad Age Survey</u>	<u>Comp</u>		<u>Ogilvy Fee</u>
Television	3.5%	\$ 388M		
Radio	5.0%	\$ 166		
Total Local Buying		\$ 554		
Plus Planning	1.0	\$ 144		
Total		\$ 698		
Plus Match buying		\$ 1,047	\$2,925M	+179%

The current fee of \$2,925M is 14% of the Media budget (\$14,414M +50%).

Production/Traffic (Produce/Distribute Advertising Materials)

Direct Cost \$561M • Total Cost \$1,683 • %of Fee 8.5% • # Manpower 8.5

A consultant specialist in this area will need to review the cost efficiencies. ONDCP has a consultant that manages this area. Below are some general observations:

- 37 employees make up the 8.5 total manpower
- This group is heavily weighted to the Production not Traffic side.

-We estimate that only 1.10 in manpower is charged to Traffic. This may be low considering this group manages the matching for creative traffic rotation.

- This does not include the \$8 Million in Subcontractor fees.

ONDCP COMPENSATION REVIEW

Research /Planning (Strategic/Brand Research)

Direct Cost \$504M • Total Cost \$1,512 • % of Fee 3% • # Manpower 3.5

This is another area that we can report on but not evaluate. The analysis shows:

- The Research/Planning group is very highly paid.
 - It is interesting to note that the three highest paid salaries are to non-Media departments (Brand Integration, Creative and Research/Planning).
 - The salary rate of \$144,022 is higher than the reported Ad Age Creative Director agency title and almost twice the highest Media salary (Media Planner \$73,489).
- A charge for a Multicultural Planning Director (.75mp) may be a duplication of work and an indication that the Subcontractor is unable to manage their assignment.

ONDCP COMPENSATION REVIEW

3. OgilvyOne compensation total \$2,675 M - 8% of non-Media compensation (\$34,135MM)

OgilvyOne

Direct Cost \$985M • Total Cost \$2,675M • # Manpower 16

The cost to develop, place and evaluate the internet medium represents 55% of the budget spent on reaching the ONDCP internet target. This is high for a very competitive area in advertising and compared to industry standards.

	<u>Internet Advertising</u>
Working Media	\$ 4,836M
Compensation	\$ 2,674
Percent	55%

4. Subcontractor compensation (SC) total Cost \$5,827 M • 17% of non-Media compensation (\$34,135M)

These areas need to be evaluated separately as well as within the total compensation costs. Below is a summary of findings:

Multicultural Subcontractors
\$2,475M Compensation • 42% of SC

- The spending for ethnic Media is \$15,348M which is at a rate of 11% of Media billings (+50%).
- Total Compensation for Subcontractors and Ogilvy is 13% of Media (increase of 18%).

<u>Component</u>	<u>%MP</u>	<u>Salary Rate</u>	<u>Total Salary</u>	<u>Compensation</u>	<u>Percent</u>
Ogilvy Manpower					
Media Planning	100%	@73,489	\$ 73,489		
Research Planning	75%	@144,002	\$108,001		
Total Salary			\$181,490		
Total Compensation Ogilvy				\$ 544 M	
Total Compensation Subcontractor				\$2,475	11%
Total Multicultural Compensation				\$3,019	13%

Research Subcontractors
\$3,212M Compensation • 55% of SC

Ogilvy manpower increases this cost for this component by 27%.

Total

<u>Component</u>	<u>%MP</u>	<u>Salary Rate</u>	<u>Total Salary</u>	<u>Compensation</u>
Research/Planning	2.75%	@144,002	\$ 396M	
Total Compensation Ogilvy				\$1,188
Compensation Subcontractor				\$3,212
Total Research Compensation				\$4,400

Travel Subcontractors \$ 110 Compensation 2% of SC
Talent Subcontractors \$ 30 Compensation .5% of SC

SUMMARY:

THE SAVINGS RANGE OF \$8.5 TO \$14.8 MILLION IS REASONABLE TO EXPECT. THE AGENCY CAN ALWAYS ADD TO STAFF TO HELP ONDCP BETTER PERFORM AND AT THE SAME TIME INCREASE THE AGENCY REVENUE. THE POINT IS NOT IN JUSTIFYING THE STAFFING, BUT IN FINDING WAYS TO REALIGN THE MANPOWER TO INDUSTRY STANDARDS.

Mr. MICA. Mr. Levitt.

Mr. LEVITT. I am a 30-year career employee, a member of the Senior Executive Service. My whole career has been focused on developing and implementing public education programs on energy independence, conservation, science, drugs, public issues. I have two degrees in communications. I have attended the Kennedy School of Government's program for senior managers in Government, and the Federal Executive Institute.

Mr. MICA. Mr. Pleffner, do you have a statement, or are you just going to do a self-introduction?

Mr. PLEFFNER. Yes. I serve as the project officer for the media campaign. I have the primary responsibility for day-to-day technical administration of the contract, act as the facilitator, communicating with the contracting officer at HHS. I have roughly 20 years of Federal procurement and acquisition experience.

Mr. MICA. Thank you.

We will now recognize for a statement Ms. Jane Twyon. She is with the Worldwide Consulting group, a consultant to ONDCP. You are recognized, Ms. Twyon. Welcome.

**STATEMENT OF JANE TWYON, PRESIDENT, WORLDWIDE
MEDIA DIRECTORS, CONSULTANT TO ONDCP**

Ms. TWYON. Thank you, Mr. Chairman. I am a bit of a fish out of water here, so just help me along if I do something improper. I would like to ask that my written testimony be included in the record as well as what I am going to say.

Mr. MICA. Without objection, your entire written statement will be made part of the record. Please proceed, and you will not be scaled just yet. [Laughter.]

Ms. TWYON. Thank you. I should correct before I go any further that the spelling of my name is T-W-Y-O-N, no E, and that my company is Worldwide Media Directors.

What I am going to do with my time here today with you is just to try and put my report into the proper frame where it should be and how it should be looked at. So I am going to go pretty quickly and hopefully will make things clearer to all of you.

I believe that I bring great value to my clients. The objective of my analysis is to evaluate the work product and the cost and, where possible, bring about improved relationships, improved work process, and improved efficiencies. As stated in my report, I do not presume to direct the exact manpower costs to be realigned.

As a consultant, I cannot give you any magic answers as to where you specifically need to make changes. This is for two major reasons. First, I am using industry standards and industry averages and all businesses are unique in their advertising requirements. You should be aware that I did not give any special weighting for the possible differences between a private versus a Government sector advertising agency cost of service. I did adjust for the requirement of matched media, but not for any unique Government contracting procedures. Second, I do not have any hands-on day-to-day experience on this business. My evaluation is based upon specific documentation from Ogilvy, industry reports, surveys, as well as my experience and stated assumptions. Making assump-

tions was necessary to complete the report and give it grounding for future analysis.

My report delivers the best information and recommendations that I could provide, and I take my work very seriously. Additionally, my report puts a stake in the ground and estimates a savings of \$8.5 to \$14.8 million in compensation. This savings was based on specific documentation that I had to evaluate and the assumptions that I made in my evaluation. However, you cannot use these figures as real savings. They need to be viewed as a snap shot estimate that indicates further work needs to be done to find real savings or to clearly understand why this business is operating above the industry average.

The ONDCP understands that I applaud their conscientious management of this assignment and for seeking advice on how to improve the media product and costs. Additionally, you must also be aware that I have stated several times to the ONDCP that my report does not see any delinquency from any party on costs. I realize that the current compensation grew out of the needs of the ONDCP and the desire by Ogilvy to respond to and service these needs and this very important piece of business for them.

I see my report, and I think this is very important to all, I see my report as the beginning, it is not an end. It is the start of a process for the ONDCP and Ogilvy to work to find ways to become more efficient. It is an evolutionary process. As a media consultant on this assignment, I do believe that we can improve the work process, relationship, and costs.

My compensation report was part of a larger report. Part of that was to look at Ogilvy media costs. And as I stated to ONDCP in my presentation on May 11th, Ogilvy's media rates looked competitive. I am sharing this fact with you today because I do not want to see a compensation report destroy good work. It would be the tail wagging the dog. As a consultant, my interest is in finding ways to raise the bar and bring this account closer in line to the industry on manpower compensation. I believe my report shows you can do better. But the report does not do the job.

I must state again that I see no fault with Ogilvy or the ONDCP, and I hope that my report is not used to derail a good relationship and excellent work from Ogilvy. I want the ONDCP to continue all the good aspects of the campaign, keep and grow a strong agency relationship, and, yes, let's work together to lower the compensation.

I also want to make an aside to the committee and this is on a personal note. I am, I guess the best word to use, angry with this committee because I believe that you have compromised me as a consultant. By handing out what was my confidential and a very, very technical report and handing it out to the press without a cover note and without putting it in any context, it opens the door for this information to be misused and misquoted. And we cannot be surprised that this has happened.

Yesterday I read from Ad Age, which is in my business one of the premier trade publications, on their Web site they talk about the issues with ONDCP, they identify me as the consultant. And let me just read one little piece from what they said, and people in my business are reading this. It says that I have said that a sav-

ings of from \$8.5 million to \$14.5 million a year would be “reasonable to expect” by letting less senior account people buy at Ogilvy. Now I know this information is wrong because account people do not make media buys. And I would never be so ridiculous as to tell a client that they are going to get major savings by compromising on senior manpower. I know it is wrong but the people who read this report will not know it. The article is full of data from my report; the information is out of context, it is misused, and it is misquoted. And I feel that because of that you have compromised me and you have embarrassed me. And for that, I am angry.

That is the end of my report. Thank you.

[The prepared statement of Ms. Twyon follows:]

Worldwide Media Directors

*Jane Twyon
President*

October 4, 2000

Hearing of the Subcommittee on Criminal Justice, Drug Policy and Human Resources

I have been asked to give you an oral testimony in the next five minutes in regards to my April 27th ONDCP Report entitled "Non-Media Cost Analysis". I will discuss my assignment, my role as a consultant, the report's findings and my expectation on the implications and next steps coming from these findings.

I am a media consultant and I was hired by the Ad Council to analyze the compensation (this is non-media costs) and manpower (which is labor hours) to the Ogilvy advertising agency and the total compensation including all Ogilvy and non-Ogilvy fees that make up the overall compensation charge to ONDCP. My report focuses on the Media fees and where possible I offer comments or report information on the other components such as creative, production and subcontractors. The compensation report is part of a larger assignment in which I review all of the media work and media costs.

I believe that I bring great value to my clients. The object of my analysis is to evaluate the work product and costs to bring about where possible: improved relationships, improved work processes and improved efficiencies. As stated in my report I do "not presume to direct the exact manpower costs to be realigned." As a consultant, I can not give you any magic answers as to where you need to specifically make changes. This is for two major reasons. First, I am using industry standards and industry averages and all businesses are unique in their advertising requirements. As you know, ONDCP has a complex multifaceted campaign. You should be aware that I did not give any special weighting for the possible differences between a Private vs. a Government sector advertising agency costs of service. I did adjust for the requirement of matched media, but not for any unique government contracting procedures. Secondly, I do not have hands on day-to-day experience on this business. I am not aware of all of the unique requirements and needs from the ONDCP and the media on this assignment. My evaluation is based upon specific documentation from Ogilvy, Industry reports and surveys as well as my experience and stated assumptions. Making assumptions was necessary to complete the report and give it a grounding for future analysis.

The following is a list of the documents that were used in my report.

Published information:

- Year 2000 Project Plan for Advertising Contract 282-99-0010
- Ad Age February 22, 1999 Media Buying Compensation Rates
- Ad Age December 6, 1999 Salary Survey

My report findings highlighted three major problem areas.

I. The total compensation charge of \$26,128,123 (\$34,135,123 less production costs of \$8,007,000) which at 22% of Media billings is very high compared to the traditional industry norms of 15% commission on Media billings.

II. There is a significantly large percentage of costs going toward Creative/Other manpower (42% of total) on what is mainly an ONDCP *Media* assignment. Additionally, there is a large percentage of costs assigned to crossover manpower rather than the core discipline manpower. These high "non-Media" costs are compounded by the additional expense of \$5,827,000 paid to Subcontractors.

III. The high numbers of people working on the business, allocation of senior manpower, redundancy of manpower and cost of manpower versus the industry.

My report delivers the best information and recommendations that I could provide. Additionally, my report puts a stake in the ground and estimates a savings of \$8.5 to \$14.8 million in compensation. This savings was based upon the specific documentation that I had to evaluate and the assumptions that I made in my evaluation. However, you cannot use these figures as real savings, they need to be viewed as a “snap shot” estimate that indicate that further work needs to be done to find real savings or to clearly understand why this business is operating above the industry average. In my report conclusion, I stated that “The agency can always add to staff to help the ONDCP better perform and at the same time increase the agency revenue.” I go on to recommend that we **not** try to justify the current staffing, but move forward to find ways to realign the manpower to industry standards.

As the ONDCP understands, I applaud their conscientious management of this assignment and for seeking advice on how to improve their media product and costs. Additionally, you must all also be aware that I have stated several times to the ONDCP that my report does not see any delinquency from any party on costs. I realize that the current compensation grew out of needs from the ONDCP and the desire by Ogilvy to respond and service these needs and this very important piece of business. I made it clear to the ONDCP, and I want you to know, that I believe that Ogilvy is an excellent agency and that they have done a great job on this assignment.

I see my report as a beginning not an end. It is the start of a process for the ONDCP and Ogilvy to work to find ways to become more efficient. It is the start of an evolutionary process. As the media consultant on this assignment, I do believe that I can improve the work process, relationship and costs. I believe that it may mean re-evaluating some of the government requirements or spending monies to create special systems that can save manpower. One of my recommendations to the ONDCP was to follow-up my report with a work session which would include all of the Ogilvy and ONDCP decision-makers. I believe that my report can be used to identify the issues and areas that we can focus on to find ways to control manpower costs. I am sure that working together we can find ways to become more efficient without losing any of the excellent work product that you have enjoyed.

The compensation report was part of a larger assignment. Part of my review was to look at Ogilvy media costs. As stated to ONDCP in my presentation of May 11th, Ogilvy’s media rates looked competitive. The cable buy showed a year to year 6%-7% cost increase and the industry was paying 12%-18% increases. The network buy only showed a 3% cost increase. I even found media areas which had costs that were beating the prior year’s costs.

I share this with you today, because I do not want to see a compensation report destroy a good work. It would be the “tail wagging the dog”. As a consultant, my interest is in finding ways to raise the bar and bring this account closer in line with the industry on media manpower compensation. I believe that my report shows you can do better. But the report does not do the job and I can’t do this on my own.

I must state that I see no fault with Ogilvy or the ONDCP and that I hope that my report is not used to derail a good relationship and the excellent work from Ogilvy. I want the ONDCP to continue with all of the good aspects of the campaign, keep and grow a strong agency relationship and yes, let’s work together to find ways to lower the compensation costs.

Respectfully submitted,

Jane Twyon
Worldwide Media Directors

Mr. MICA. Thank you. We will get back to you in just a moment. We will start with some questions that I have and then proceed to other Members. First of all, let's begin with you, Mr. Levitt, you are the media campaign manager. When and how did you first become aware of cost and billing concerns with the contractor Ogilvy and Mather?

Mr. LEVITT. Well, sir, we have four major contracts and under those probably 20 or 25 subcontractors are working for those contractors. In virtually every single instance, we have recommended withholds from billing. I think it is a total of about \$18 million.

Mr. MICA. My question was with the Ogilvy and Mather contractor, when did you first become aware of cost and billing concerns. Do you recall?

Mr. LEVITT. It was not necessarily billing concerns, but billing irregularities. They did not bill for labor for about 10 months. So it would be about September 1999.

Mr. MICA. You first became aware of some over-billing—

Mr. LEVITT. No, it—

Mr. MICA. I am sorry, billing irregularities in October 1999?

Mr. LEVITT. They had not billed for everything. And may I just correct one point. When I say over-billing, I am talking about fraudulent over-billing. When I put in a travel voucher when I go on a trip, I do not consider it fraud if I make a mistake. I am talking about deliberate cooking the books. We have no evidence of that whatsoever.

Mr. MICA. OK. Were you aware of the external analysis of costs by the outside consultant who has testified today?

Mr. LEVITT. There are two different issues here. One is the past billings, which continue and have—

Mr. MICA. But I do not think she dealt with—

Mr. LEVITT. Her analysis was about the future and it was the Ogilvy labor structure and do we need the different components of it.

Mr. MICA. And when were you aware of her report?

Mr. LEVITT. We commissioned that report I believe in March or April 2000. But we had concerns about costs for the campaign long before that.

Mr. MICA. When was that commissioned, Ms. Twyon?

Ms. TWYON. I actually gave the report on the 27th. Late March was the first time I was contacted. I do not know the exact date but it was late March.

Mr. MICA. Thank you.

When, Mr. Levitt, were you aware of the memorandum dated April 13th from the contract technical representative Mr. Pleffner, who is with you today. When were you first made aware of the memo? I think we have got a copy of it up here.

Mr. LEVITT. I believe he started writing that memo in March, sometime in late March.

Mr. MICA. So you were aware of it before he put it on paper on April 13th?

Mr. LEVITT. I was aware of the five different issues he raised in that memo.

Mr. MICA. And did you agree or disagree with the concerns? Were you concerned?

Mr. LEVITT. I agreed with all of them.

Mr. MICA. You did?

Mr. LEVITT. I think I differed to some degree with—

Mr. MICA. Who presented the memo of the 13th stating these concerns and problems to the Director?

Mr. LEVITT. Mr. Pleffner.

Mr. MICA. Mr. Pleffner.

Mr. LEVITT. It went from him, through our legal counsel, through our chief of staff Janet Crist, directly to General McCaffrey.

Mr. MICA. So, first, the legal counsel was made aware.

Mr. LEVITT. That is just the process we would use for something that would include these issues.

Mr. MICA. Mr. Pleffner, there are some pretty serious questions raised about billing practices and over-billing in your memo of the 13th. It appears that Ogilvy and Mather had initially provided you and informed you—if you want to read this, it says “Ogilvy contract manager informed me that the invoice included all labor costs incurred during the period January 4, 1999 through June 30, 1999. Subsequently, several months later, they submitted two additional labor bills for this same period.” And it said that Ogilvy increased its claimed effort by 27 percent, the number of people working on the contract rose by some 33 percent, and by 33 percent for invoice costs. Is that correct?

Mr. PLEFFNER. Yes, that is correct.

Mr. MICA. And I guess you had gotten some information from an anonymous source, where it says “when a former Ogilvy employee related facts to ONDCP supporting suspicions of fraudulent conduct.” And you said “our review of time sheets led to increasing concerns.” So you and Mr. Levitt were aware of problems before and then you were presented with these new billings. You said many of the time sheets for invoices 14 and 16 were illegible and contained an inordinate number of changes, alterations, almost always increasing the time charged to the ONDCP contract. Is that correct?

Mr. PLEFFNER. That is correct.

Mr. MICA. Now we have asked for copies of these time sheets. Mr. Hast, did you get copies of these time sheets that are in question?

Mr. HAST. The Office of Special Investigations has not. We did not request them. I do not know whether the ongoing GAO audit has them yet or not.

Mr. MICA. OK. I requested copies I think of some pretty specific documents. Have we received copies? Have you produced these yet, Dr. Vereen?

Dr. VEREEN. If they have been produced, we have sent them.

Mr. MICA. Has the Office of Drug Control Policy provided the subcommittee or GAO the time sheets in question?

Dr. VEREEN. We have seen them. They are being produced. They are in the process of being produced, but I do not know if you have actually received them.

Mr. MICA. Well I want these time sheets and I would like them—

Mr. BARR. Will the chairman yield?

Mr. MICA. Yes.

Mr. BARR. I was having difficulty. You said ONDCP has not received them?

Dr. VEREEN. No. We have seen them. They have been examined. But the request for them was made and I do not know if they—

Mr. MICA. Well I want these time sheets. I want them turned over to us and I would also like them turned over to the investigators.

Dr. VEREEN. Sure.

Mr. MICA. When information was presented to me initially, if this had just been an anonymous report unsubstantiated about over-billing and irregularities, I might not have paid much attention to it. But with the documentation that we have, with this internal memo—this is an official memo that you prepared, is that right, Mr. Pleffner?

Mr. PLEFFNER. Yes, it is.

Mr. MICA. Do you still stand by the comments that you put into this memo? Is there anything incorrect in this memo?

Mr. PLEFFNER. There is nothing incorrect. I still stand by it.

Mr. MICA. Mr. Levitt, you testified that you were aware of this even before the 13th, some of these allegations. The next question I would have is, I see handwriting on there, Mr. Hast, has GAO determined whose handwriting it is? It says discuss, need, and then down at the bottom, "Yes. We need an external audit."

Mr. HAST. Yes.

Mr. MICA. Whose handwriting is it?

Mr. HAST. General McCaffrey identified that as his handwriting.

Mr. MICA. OK. Dr. Vereen, was an external audit ordered at that point immediately after April 13th and this memo was initialled by the Director?

Dr. VEREEN. No. An audit was discussed. At the same time, we were making arrangements to change the contracting activity from HHS to another entity and at that time an audit would be done.

Mr. MICA. First of all, GAO, were you told that an audit would not be conducted until the end of the contract, that was the term of the contract, and is that 4 years?

Mr. HAST. That was not clear. General McCaffrey said he intended to have an audit at some time.

Mr. MICA. Mr. Pleffner, did you get a copy of this memo back that said yes, we need an external audit?

Mr. PLEFFNER. Yes, I did.

Mr. MICA. And what was done then? Did you order the external audit? Did anyone proceed with an external audit?

Mr. PLEFFNER. No. The decision, as I noted in the memo, was to request an audit once the contracting function was transferred out of HHS. At that time we were discussing the possibility of moving it to the Navy, as we currently are.

Mr. MICA. What was your opinion of that procedure of waiting until the end? Did you have any other recommendation?

Mr. PLEFFNER. My preference at the time was for an immediate audit given the irregularities that we had and the allegations that were made. But, again—

Mr. MICA. It also says the contracting officer's initial response was "their policy was to perform an audit only at the end of the

contract—in this case, at the end of 5 years.” and I see a large handwritten “No.” Was that also your opinion?

Mr. PLEFFNER. To wait for 5 years?

Mr. MICA. Right.

Mr. PLEFFNER. No, sir, that is not my opinion.

Mr. MICA. It looks like again, I am not sure, this is the ONDCP Director’s “No.” Is that correct, Mr. Hast?

Mr. HAST. Yes.

Mr. PLEFFNER. And I do agree with the Director’s position that it cannot wait for 5 years. As a matter of fact, I had requested in early March or mid-March that HHS initiate an audit. It was before I prepared this memorandum.

Mr. MICA. And what did they say?

Mr. PLEFFNER. The contracting officer informed me that it was HHS policy to conduct audits only after the conclusion of the contract, in this case it would have been 5 years.

Mr. MICA. There was also a meeting that some people have referred to of the ONDCP Director with Ms. Seifert, I believe it is, she is with Ogilvy and Mather, and this took place I guess after the production of this memo from you to the Director. Is that correct?

Mr. PLEFFNER. Correct.

Mr. MICA. Is anyone familiar with that meeting?

Mr. LEVITT. Which meeting was this, sir?

Mr. MICA. Director McCaffrey had a meeting with Shona Seifert.

Mr. LEVITT. Seifert, yes.

Mr. MICA. Right. And she had a conversation with Alan Levitt and Jill Bartholomew. Is anyone aware of that meeting?

Mr. LEVITT. Well, I am Alan Levitt. I should be. Yes, she had a meeting with Director McCaffrey I think it was on June 5th. Is that what you are talking about?

Mr. MICA. Right.

Mr. LEVITT. The meeting was on June 5th. That was after a meeting, a long briefing on another topic completely. And what had happened before then is Ogilvy had responded to the Jane Twyon report and gave their view of it and did an analysis for us. Our management team—

Mr. MICA. You stayed in the whole meeting?

Mr. LEVITT. I was not in the meeting with the Director.

Mr. MICA. You were not in the meeting but you are aware—

Mr. LEVITT. No. Afterwards, she came down and told me that because of her briefing the Director felt more comfortable with some of the labor issues—not billing—some of the labor issues that were being discussed in Jane Twyon’s report.

Mr. MICA. Did you say uncomfortable or comfortable?

Mr. LEVITT. A little more comfortable.

Mr. MICA. More comfortable.

Mr. LEVITT. Right.

Mr. MICA. And what was communicated then to you, Mr. Pleffner?

Mr. PLEFFNER. On June 6th, I met with Alan Levitt and Ms. Bartholomew at which time they informed me of the visit they had with Ms. Seifert the day before.

Mr. MICA. I am sorry, can you repeat that? For some reason, this seems to be coming across garbled.

Mr. PLEFFNER. I met with Alan Levitt and Jill Bartholomew on June 6th, the day following the briefing and the meeting between—

Mr. MICA. The meeting was on the 5th, right?

Mr. PLEFFNER. Correct. On the morning of the 6th, Mr. Levitt and Ms. Bartholomew informed me of the visit and told me that Ms. Seifert had told them the Director had no problem with the contract costs and that Ogilvy would continue being the advertising contractor for ONDCP.

Mr. MICA. That is different than what Mr. Levitt said.

Mr. LEVITT. I do not recall that. What I recall is she said the Director felt more comfortable because of their report. Now, the Director was not in the meeting when she gave her report. That was reported to him by the management team chaired by Janet Crist.

Mr. MICA. We have got a vote, a couple of votes. I am a little bit concerned about the status of management of this whole program. We are moving now from HHS you said to the Navy. The only audit we have being conducted at this point is by GAO and that has been instituted really since some of this has come to the attention of the subcommittee. Is that correct, Mr. Hast?

Mr. HAST. Yes.

Mr. MICA. Dr. Vereen, where are we in the status of who is in charge of the contract?

Dr. VEREEN. We tried to evaluate several other sources in the Federal Government. Our first choice at this point is the Navy and we are meeting with them I believe on Monday to try to finalize that contracting relationship so we can switch it over. That will start an audit and we will proceed from there.

Mr. BARR. Excuse me. Mr. Chairman.

Mr. MICA. Yes?

Mr. BARR. Would you yield for just a moment please?

Mr. MICA. Real quickly. Go ahead.

Mr. BARR. Are you saying, Dr. Vereen, that you still have not made a final decision on changing over to the Navy?

Dr. VEREEN. Well, it is not just our decision. We had to go and look for appropriate contracting agency. We had started looking earlier in the year, predating this memo, and we have decided upon the Navy as the best choice for us. We are providing them with information and doing a final meeting I believe on Monday so that transfer can be finalized.

Mr. MICA. It appears that the contract administration is in disarray. We went to HHS and asked them simple questions; they do not have a clue, it is strictly a "que pasa?" situation. This is a very expensive contract. We want it to succeed. So we need somebody in charge. We cannot have an audit at the end of a 4-year period when we have these reports. And this is not an anonymous report. Mr. Levitt, who is in charge of the program, and Mr. Pleffner, the financial officer, knew about problems with the contract. And we did not have an audit in place until this was raised to the level of GAO investigators and the subcommittee.

So there is something dramatically wrong with the administration and financial management. I do not know if there is any crimi-

nal misconduct here by anybody. But I want to see the time sheets and I want to see them in a timely fashion. And I want GAO to continue reviewing this matter. Our subcommittee is not an investigative staff at the level of these folks. I think you all are former Secret Service agents, is that right?

Mr. HAST. Yes, sir. We are all retired Secret Service, FBI, or from other investigative agencies.

Mr. MICA. So it is not a bunch of people that fell off the wagon during pumpkin season or something. We have competent people whose responsibility is as independent investigators of the General Accounting Office of the U.S. Government. So I want this pursued. If someone is ripping off the taxpayers, I want that pursued. I want those documents. And they can put on a media campaign against me, but this is not political, this is not anything, it is my oversight responsibility and I take it very seriously. I want the program to succeed.

So that is the end of my questions at this point. Dr. Vereen, I want you to deliver the message I am not playing games. I just want to make certain that this thing that we have created—we created it, we authorized it, financed it, you administer it—that it is properly administered. Short and simple.

I apologize to the minority for taking longer, I wanted to give you a shot. But maybe we should go ahead and vote and come back and I will recognize you immediately.

We will stand in recess until 5 minutes after the last vote.

[Recess.]

Mr. MICA. I would like to call the Subcommittee on Criminal Justice, Drug Policy, and Human Resources back to order.

I have additional questions which I will submit in writing, I do not know if we will do a second round today, to the drug czar's office, ONDCP, and some of the others who have testified today.

Let me yield at this time to the ranking member, the gentlelady from Hawaii, Mrs. Mink.

Mrs. MINK. Thank you very much, Mr. Chairman.

First, I would like to express my apologies and concern to Ms. Jane Twyon for the release of her confidential memorandum to ONDCP and consequent embarrassment that such a release has caused her. I just am very, very sorry. I do not know what else the subcommittee can do to ease the situation and to respond to your concerns with respect to your professional integrity. So I certainly am very sensitive to those kinds of abrogations of our release of information that could cause someone harm.

Ms. TWYON. Thank you.

Mrs. MINK. My question to you, Ms. Twyon, is when were you asked to do this particular review of the Ogilvy contract?

Ms. TWYON. I was contacted in late March and then I have a contract with the Ad Council who actually hired me at the request of ONDCP on April 4th.

Mrs. MINK. When did the Ad Council get the request, if you got the request in March?

Ms. TWYON. I think it was just a short period of time there, so say at the end of March.

Mrs. MINK. And so who compensated you for this report?

Ms. TWYON. I am paid through the Ad Council who hired me.

Mrs. MINK. And the Ad Council was paid by the ONDCP people presumably?

Ms. TWYON. Yes.

Mrs. MINK. And what was your specific charge when you were asked to undertake this investigation? Was it fraud?

Ms. TWYON. No.

Mrs. MINK. At any time were you instructed to look at this particular situation from a fraud perspective?

Ms. TWYON. No.

Mrs. MINK. Was there any suggestion that there was deliberate tampering with work sheets and over-billing and all the rest of what we have heard today?

Ms. TWYON. No. That was not really part of my assignment.

Mrs. MINK. Did you investigate that as any part of your report?

Ms. TWYON. No. That area is not part of my assignment.

Mrs. MINK. So then your report should not be cited in any way as legitimizing any of these communications to this subcommittee or to others that there is evidence of fraudulent conduct?

Ms. TWYON. That is right.

Mrs. MINK. Now in your examination, did you come across anything that was fraudulent in your estimation?

Ms. TWYON. No, I did not.

Mrs. MINK. So that as far as you are concerned the only inquiry that you investigated and reported on was the comparison of the charges that Ogilvy made to the Government as they related to industry-wide charges for the same type of work. Is that correct?

Ms. TWYON. Correct.

Mrs. MINK. OK. So the agency then, from what we have heard from Mr. Levitt, became concerned about the submission of these billing sheets and accounting from Ogilvy back in September 1999. Is that correct, Mr. Levitt?

Mr. LEVITT. Right. Correct.

Mrs. MINK. And what did you do when you found out that they were not billing you at the appropriate intervals and had waited 9 months to submit their first comprehensive billing?

Mr. LEVITT. Our project officer, Mr. Pleffner could probably better answer that. He had been in conversation with Ogilvy for I think some months before.

Mrs. MINK. Mr. Pleffner, would you answer that question.

Mr. PLEFFNER. Yes. After receipt of their first labor invoice—

Mrs. MINK. Which was when, what date?

Mr. PLEFFNER. That was mid-September 1999.

Mrs. MINK. Was that unusual for a contractor to wait 9 months into their contract to submit their first pay sheets?

Mr. PLEFFNER. Extremely unusual.

Mrs. MINK. And what did you do about it?

Mr. PLEFFNER. There is really not much you can do to force them—

Mrs. MINK. Did you contact them and say what is going on here, why are you so late?

Mr. PLEFFNER. I had been in communication with the Ogilvy financial and contracting folks since February 1999 encouraging them to bill for their labor.

Mrs. MINK. Now is there any evidence to show that the lateness was due to their transition problems of one contractor to another?

Mr. PLEFFNER. I have no evidence of that.

Mrs. MINK. No evidence of that.

Mr. PLEFFNER. No.

Mrs. MINK. So did they give you any reason to believe that they understood the gravity of their situation and that they were going to take care of it promptly?

Mr. PLEFFNER. I really cannot speak to—

Mrs. MINK. Well, were you concerned that they did not give you any response or indication that they were going to take care of this delinquency?

Mr. PLEFFNER. Extremely concerned. Again, I had numerous discussions with not only the financial and contracting folks but the project director.

Mrs. MINK. Was it your decision then to withhold payment when they finally did submit their vouchers for payment?

Mr. PLEFFNER. It was my recommendation to the contracting officer, yes.

Mrs. MINK. And the contracting officer is who?

Mr. PLEFFNER. Janet Miller with the Health and Human Services Program Support Center.

Mrs. MINK. And she then followed up on your recommendation and withheld payment. Is that correct?

Mr. PLEFFNER. Correct.

Mrs. MINK. And this \$13, \$14, \$18 million, whatever the figure is, that was withheld constituted what account for Ogilvy? Was it their money that they had spent themselves as an agency? Was it advertising money? Was it their operational money? Is it part of their contract proceeds that was withheld?

Mr. PLEFFNER. The \$13.4 million to date that I have recommended for withhold are costs that Ogilvy states they have incurred.

Mrs. MINK. So by your withholding it, they are hurting because they are not getting reimbursed for out of pocket costs. Is that a correct general conclusion?

Mr. PLEFFNER. Out of pocket labor. Yes, ma'am.

Mrs. MINK. Now when was the first withholding?

Mr. PLEFFNER. The first withholding was roughly August-September 1999.

Mrs. MINK. And you have continued to withhold additional sums till today it is about \$14 million. Is that correct?

Mr. PLEFFNER. Correct.

Mrs. MINK. Is there any indication that you are about to release any of this money because they have performed to your satisfaction in terms of giving you the tear sheets or whatever it is that is missing in the various billings that they have sent you?

Mr. PLEFFNER. Obviously, upon receipt of supporting documentation, any withholds that are determined reasonable, yes, release would—

Mrs. MINK. So how much of their out of pocket costs since they became the contractor in this instance have actually been released and paid to Ogilvy? I want to get a comparison. You have withheld \$13-\$14 million. What have they actually been paid?

Mr. PLEFFNER. To date, they have billed for approximately \$187 million.

Mrs. MINK. But that is moneys they have spent in the media buys. I am talking about out of pocket operational expenses for Ogilvy.

Mr. PLEFFNER. For the labor to date, they have billed roughly \$23 million. I have recommended withhold of approximately \$7.8 million. Media purchases—you were not interested in the media. Out of pocket or production expenses I believe they have invoiced for roughly \$6-\$7 million. I have recommended withhold of a little over \$1 million.

Mrs. MINK. So, if you add that up, it is about \$8 million that you are currently withholding?

Mr. PLEFFNER. Close to \$9 million for labor and—

Mrs. MINK. Now at any time that you made those requests for withholding, did anyone else step in and intervene and suggest that you were being overly strict and asked you not to withhold these moneys?

Mr. PLEFFNER. Yes.

Mrs. MINK. Who?

Mr. PLEFFNER. The contracting officer at Health and Human Services.

Mrs. MINK. Asked you to be more understanding? And did you then comply?

Mr. PLEFFNER. The contracting officer felt that I was over zealous in the request for supporting documentation, yes.

Mrs. MINK. So who prevailed, you or the HHS?

Mr. PLEFFNER. To the best of my knowledge, all but a couple of the recommended withholds the contractor has in fact withheld.

Mrs. MINK. Now, under the law, who has the responsibility to make those recommendations with respect to payment? Is it you or is it the contracting officer in HHS?

Mr. PLEFFNER. I have been appointed by the contracting officer as project officer. I make the recommendations, the contracting officer makes the final decision.

Mrs. MINK. So actually we should have another seat here for them to respond to this question since they have the ultimate decision.

Mr. PLEFFNER. They would be better suited to respond to their actions, yes.

Mrs. MINK. Has anyone in a supervisory capacity over your work at any time suggested that you were being over zealous?

Mr. PLEFFNER. No.

Mrs. MINK. Did anyone attempt to interfere in the exercise of your due diligence requirements with respect to this account within the agency?

Mr. PLEFFNER. No one has interfered with it at ONDCP.

Mrs. MINK. Now with respect to the tasking, this is to Mr. Hast at the Office of Special Investigations, GAO, with respect to the task that you were assigned to investigate, who made that request? Is it in writing? What were the dimensions of that request? What was your mission? What prompted it? I think that is important to know in the record.

Mr. HAST. Let me start with what prompted it. In the GAO audit that has been mentioned at this hearing—

Mrs. MINK. Well, first, who requested the GAO audit?

Mr. HAST. I think that was Chairman Kolbe of the Subcommittee on Treasury, Postal, and General Government.

Mrs. MINK. Not this committee?

Mr. HAST. Not this committee.

Mrs. MINK. I was just told by counsel it is not an audit, it is a management review. Is there a difference?

Mr. HAST. I am sure there is but I do not think I could explain it.

Mrs. MINK. On the one hand, the Director of this agency is being called down for not having an audit, so we had better have a definition of what was actually done by the GAO.

Mr. HAST. I would have to leave it that it was a management review. But I do not think I can go a lot deeper than that.

Mrs. MINK. What is the difference? Well, you can submit that response. I am told there has not been a financial audit.

Maybe Mr. Vereen can answer that question.

Dr. VEREEN. It is a general audit of the media campaign that was requested by Congressman Kolbe. And there were some conclusions that were drawn about how well we were administering the campaign.

Mrs. MINK. Was it a financial audit or a program audit?

Dr. VEREEN. No.

Mr. HAST. Program audit.

Mrs. MINK. Right. OK. All right, Mr. Hast, describe what a special investigation is in the GAO. Is it a criminal investigation division of the GAO?

Mr. HAST. Yes.

Mrs. MINK. You wear badges and you walk around with guns and so forth?

Mr. HAST. No guns, Congresswoman.

Mrs. MINK. No guns. OK.

Mr. HAST. But we do have badges. The Office of Special Investigations is a small unit in GAO, approximately 25 criminal investigators, all of them senior criminal investigators that have been hired from other investigative agencies such as the Secret Service, the FBI, IRS, and various IG offices. When there are allegations of fraud or criminality we are asked by the Congress to conduct investigations into these allegations. The other way we get into investigations is how we got into this one. When our audit teams or management review teams are out in agencies, if they develop allegations of fraud or criminality, they bring our office in. That is what happened in this case.

Mrs. MINK. So who brought you in, let's try to be specific?

Mr. HAST. The General Government Division team that was doing the management review had allegations brought to them by individuals they talked to that wanted to remain anonymous at this time. We interviewed those individuals and not only did we find their statements credible, when we reviewed our files we had another anonymous tip that had come in on the GAO FraudNet, our hotline, that kind of paralleled the allegations that were here. Once we determined that these were credible, we went to this sub-

committee because of its oversight responsibilities and presented the information and were requested by Chairman Mica to conduct an investigation.

Mrs. MINK. What was the scope of your investigation? Was it based upon the anonymous tips and the hotline?

Mr. HAST. It was to determine what ONDCP did when they had allegations of fraud.

Mrs. MINK. Why were you not charged to look at the fraud since we had two tips?

Mr. HAST. We actually are looking at the fraud. We went back to Chairman Kolbe and presented our findings, the information to him, since it started with his committee, and our General Government Division is now conducting a financial audit to determine whether these allegations of fraud have merit. And if they do, our office will continue its criminal investigation.

Mrs. MINK. But you were never charged with conducting an investigation to see whether there was any fraud?

Mr. HAST. No.

Mrs. MINK. So that is not the reason for your presence here today?

Mr. HAST. That is correct.

Mrs. MINK. And your charge then was what?

Mr. HAST. To determine what actions were taken to react to the allegations that ONDCP received.

Mrs. MINK. So we are not here today to make any determination with reference to whether the hotline tips and the informers and so forth brought in credible accusations that could end up in charges being brought against certain individuals for fraud. We are not here doing that today, are we?

Mr. HAST. We are not. No, ma'am.

Mrs. MINK. I think that should be made perfectly clear, that the limits of this investigation only go to the agency response. And in that connection, Mr. Chairman, I want to note that it seems to me from the record, the dates, the concerns that have been expressed by the responsible staff people in the ONDCP indicate that they acted promptly and that the steps they had taken in hiring a consultant and in making all of the internal reviews that they made were quite appropriate. So I do not understand why we are here today and why the GAO has not been given precise instructions by this committee to investigate the fraud and report back to us, because that is of course our concern. I hope that is the outcome.

With respect to the time sheets, I understand that the agency has a copy, that Ogilvy has the originals and that the agency does in fact have a copy of these time sheets. Is that correct, anybody from the agency?

Mr. PLEFFNER. That is correct. I have copies.

Mrs. MINK. That is correct. So if the committee makes a request for a copy of these time sheets, that is not a problem. Is that a problem? Is that an invasion of privacy? Are we then going to be charged with having looked at records that we should not have looked at?

Dr. VEREEN. The request for those time sheets came in late yesterday. We are prepared to turn them over. They do contain some

proprietary information related to Ogilvy, so some things we do have to be careful about.

Mrs. MINK. Are you working with your legal counsel with respect to what can be turned over and what cannot?

Dr. VEREEN. Yes. They are actually working on that as we speak. The request came in yesterday.

Mrs. MINK. When do you expect those will be delivered to the subcommittee for our examination?

Dr. VEREEN. We suspect in just a couple of days.

Mrs. MINK. We may be out of here in a couple of days.

Dr. VEREEN. They may be on the way.

Mrs. MINK. Thank you. Thank you very much, Mr. Chairman.

Mr. MICA. Just to respond to the gentlelady. We have requested these and I think it would be appropriate, we can discuss this later, to turn them over to GAO. We are not criminal investigators and I do not want to infer that there is even—

Mrs. MINK. I understood that the GAO has it.

Mr. MICA. GAO does not have it.

Mr. HAST. We do not have it.

Mr. MICA. So, again, there are several parts to this. We are concentrating on management administration today.

Mrs. MINK. Mr. Chairman, I would be happy not to have them then and have it turned over to the GAO.

Mr. MICA. Well, we are going to get them. I requested them.

Mrs. MINK. Oh, you want them. All right.

Mr. MICA. We have been joined by the chairman of the full International Relations Committee who is also a member of our subcommittee. If I may, I would like to recognize him because I think he is going to have to leave to go and chair another meeting. You are recognized for an opening statement or whatever.

Mr. GILMAN. Thank you, Mr. Chairman. I regret that I could not be here earlier. We were conducting a hearing and I have to go on to another one. I want to thank you, Mr. Mica, for calling this important and timely hearing on our Nation's Anti-Drug Youth Media Campaign and the expenditure of taxpayer funds in this very worthy and important effort to keep our youngsters off of illicit drugs. And as you know, we have worked with you consistently and for a long period of time in our war against drugs, both domestically and internationally.

The 5 year \$1 billion educational campaign for our young people is an important tool in our fight against teen drug use. I think the concerns expressed by some on alleged excessive billing and possible mismanagement of some of these precious media funds that are hard to come by, especially when the lives of our young people are at stake, is certainly worthy of a very careful review and analysis. These funds are intended to help keep our young people off of illicit drugs here at home. These dollars need to be used wisely, judiciously since we have cut both our source nation and transit drug-fighting dollars in recent years. In turn, we have seen more and more illicit drugs entering our Nation from abroad, such as deadly cocaine and the heroin from Colombia. Only now is the administration about to help Colombia. It may be too little, too late. We hope not.

Alleged ONDCP print media costs of 238 percent above the industry average, along with ad buying and placement fees far above an industry average of 3.5 percent, and local broadcast media costs of 179 percent above industry average, if true, certainly require response from ONDCP and those managing this important anti-drug media program. We, the American taxpayers, and the parents of our young people are entitled to an accountability and transparency in this important media effort. We certainly need to see an independent, unbiased, external audit of these funds now in light of these many concerns, as called for by General McCaffrey back in I guess it was April when that letter was first presented to him and not after 5 years and the contract expires. We must effect change before, not after, the 5-year timeframe.

I hope we can get assurances today that such an external audit is in fact going to be done by the executive branch. And I understand GAO is already involved in doing some auditing. There is already far too much unfounded skepticism about our war on drugs and whether or not we can win or even do something effective about it. I hope the media campaign we intended to help to win our war on illicit drugs here at home and keep our kids off illicit substances does not prove to be yet another unfortunate cause for despair and skepticism. And we hope and trust that today's hearing can alleviate some of these concerns.

So I look forward to reviewing the testimony of today's witnesses. Getting an honest assessment of the media campaign's management, and the results in advancing our vital national interest of keeping our young people off these deadly illicit substances are two goals I am sure we can all agree upon.

Mr. Chairman, with your permission, just one question. General McCaffrey wisely noted after reading your April 13th memo that we need an external audit, as depicted on that display there. Do you still share that view, Mr. Pleffner? And why has there not been an audit of that nature?

Mr. PLEFFNER. Yes, I do share the General's view that there needs to be an external audit.

Mr. GILMAN. And why was that audit not conducted?

Mr. PLEFFNER. It was decided early this year—HHS' policy was to wait until the end of the contract—and it was decided by ONDCP to wait until after transfer of the contracting function to another Government agency. At that point an audit would be requested.

Dr. VEREEN. To clarify, sir. The rules regarding HHS and an audit was that an audit would be done at the end of the contract. We did not want to wait that long. So we took steps predating the memo to change the contracting activity to some other entity. And at this point, we are very close to changing that contract to the Navy. When that transfer takes place, an audit will be requested.

Mr. GILMAN. Why do you have to wait till the end of the contract to conduct an audit if you see some problems?

Dr. VEREEN. Well, the problems that were identified we have known about for more than a year. We have taken steps to protect the public purse by withholding payment on bills sent to us—

Mr. GILMAN. You are withholding payments. Why isn't an audit appropriate then?

Dr. VEREEN. Well, an audit is appropriate.

Mr. PLEFFNER. We believe an audit is appropriate.

Dr. VEREEN. Yes. We have taken steps.

Mr. PLEFFNER. The contracting officer stated that HHS had a policy that an interim audit would not be conducted, that we would have to wait until the conclusion of the contract.

Mr. BARR. Excuse me. Would the chairman yield?

Mr. GILMAN. I am pleased to yield to the gentleman.

Mr. BARR. You all are I think confusing us up here. Is it a policy or was it a specific term of the contract that no audit would be performed before the expiration of the 5-year contract? You all have used different terms and the legal significance of them is significant.

Mr. PLEFFNER. The contracting officer sent me an e-mail, after I requested that an interim audit be performed, she sent me an e-mail telling me that HHS policy was to wait until the conclusion of a contract, the end of the contract before an audit could be performed.

Mr. BARR. So it was not that there was any legal prohibition on you all demanding that an audit be performed, which would be the appropriate way to protect the taxpayers, you are saying that HHS said we are just not going to do it because it goes against our policy.

Mr. PLEFFNER. Correct. Now I must add that HHS would have performed an audit—

Mr. BARR. If they got more money.

Mr. PLEFFNER. If they got more money, yes, sir.

Mr. BARR. That is big of them. I yield back.

Mr. GILMAN. Thank you. And thank you for your comments, Mr. Barr.

HHS was prepared to do an audit, all they wanted from ONDCP is to get paid for it. So there was no obstruction, is that correct, in doing the audit at any time? Is that right?

Mr. PLEFFNER. Yes, sir.

Mr. GILMAN. I cannot understand then why an external audit was not ordered right after General McCaffrey suggested that. There is no explanation apparently that is logical, unless you have another explanation for it.

Mr. PLEFFNER. I would like to add that to date ONDCP had paid HHS roughly \$1 million in fees. We believed, and the MOU that we have with HHS states, all contract administration functions would be performed. One function is contract audits. We believed that the fees that we had already paid them should have covered the audit.

Mr. GILMAN. Did anyone pursue that with them and say, look, we have paid this money, why isn't an audit being conducted?

Mr. PLEFFNER. Beyond the communications I had with HHS back in March 2000, it was at that point we decided that we were going to be moving the contracting function, we decided not to pursue the action.

Mr. GILMAN. Not to pursue an audit?

Mr. PLEFFNER. Correct, through HHS.

Mr. GILMAN. Why?

Mr. PLEFFNER. Again, they were requesting additional compensation.

Mr. GILMAN. But you felt they had been given the compensation, is that correct?

Mr. PLEFFNER. Correct.

Mr. GILMAN. So did anyone try to resolve that issue, that you had paid them and they were not doing an audit. Did anyone try to resolve that? Did you ask General McCaffrey to resolve that issue?

Mr. PLEFFNER. No, sir, I did not.

Mr. GILMAN. Thank you. Thank you, Mr. Chairman.

Mr. MICA. I thank the gentleman from New York.

I am pleased to recognize the vice chairman of our subcommittee, Mr. Barr, the gentleman from Georgia.

Mr. BARR. Thank you.

Let me followup on the very insightful questions of Chairman Gilman just to make sure for the record that we understand what is going on here. In the exhibit over here, at the bottom of page 2, there is a handwritten notation by Director McCaffrey which is to the right of the following sentence, "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 5 years." The notation off to the side is "No." Not just no, but "No!" with exclamation point. That to me indicates, and does it indicate the same thing to you, Mr. Pleffner, as the author of this document, that Director McCaffrey was saying no, we are not going to wait until the end of the end of the contract?

Mr. PLEFFNER. That was my feeling, he did not want to wait.

Mr. BARR. And then further on down, it says "Since we are considering changing contracting offices"—which you all are still apparently considering several months later, this is 6 months ago—"from HHS to Navy—blue folder is on its way"—what is a blue folder on its way?

Mr. PLEFFNER. That is the mechanism in which to forward documents up through the chain of command.

Mr. BARR. Did the blue folder ever get there?

Mr. PLEFFNER. Yes, sir.

Mr. BARR. But the process still has not taken place, changing this responsibility from HHS to Navy?

Mr. PLEFFNER. The Director has approved the change to the Navy.

Mr. BARR. But it has not actually taken place. I thought that was what Dr. Vereen testified.

Mr. PLEFFNER. We are currently negotiating costs and terms of the arrangement, the MOU.

Mr. BARR. So the authorization has been given but the details have not been worked out.

Mr. PLEFFNER. The final details, correct.

Mr. BARR. OK. Then it says, "we decided to wait before initiating an audit." And then down at the bottom of the page there is a notation, as testified to by GAO this is General McCaffrey's notation, "Yes. We need an external audit." To me, Mr. Pleffner, and I would like to see whether you agree with this, that to me clearly indicates when you put those two notations together that General McCaffrey

was saying no, we are not going to wait for 5 years to conduct an audit, and we need one immediately.

Mr. PLEFFNER. Yes, I agree.

Mr. BARR. But again, as we have learned with this administration that you have to ask, what does "immediate" mean to this administration, do you know? What does immediate mean to you as a public servant and somebody who has written a very lucid and straightforward memo here?

Mr. PLEFFNER. Well, I believe—

Mr. LEVITT. Sir, as program manager, can I just make a comment here?

Mr. BARR. I am sorry. I want Mr. Pleffner to explain to me what immediate means to him.

Mr. PLEFFNER. Immediately meant to me immediately after transfer of the contracts out of HHS.

Mr. BARR. In other words, you were seeing something that concerned you here, and that is very possibly, to put it mildly, significant waste of taxpayer money and significant activity by Ogilvy that raised very serious questions in your mind about billing practices. Is that correct?

Mr. PLEFFNER. Correct.

Mr. BARR. And based on that, as a public servant, you recommended to the Director that an immediate audit be performed. Is that correct?

Mr. PLEFFNER. That is correct.

Mr. BARR. That immediate audit has not been performed. Is that a fact?

Mr. PLEFFNER. That is a fact.

Mr. BARR. OK. That is why we are concerned up here. If I could, Ms. Twyon, you testified earlier I think in response to a question by the gentlelady from Hawaii that you have a contract or you contracted with the Ad Council.

Ms. TWYON. Correct.

Mr. BARR. And that is the basis on which your report was performed or drafted?

Ms. TWYON. Yes.

Mr. BARR. And were you compensated for that service?

Ms. TWYON. Yes.

Mr. BARR. How much? Approximately.

Ms. TWYON. Let me look because I do not know the answer to that. Let's see if it is in here. I have \$15,000.

Mr. BARR. OK. And that \$15,000 more or less, I am not trying to pin you down to a specific amount, was received by you from the Ad Council pursuant to moneys that they received from ONDCP?

Ms. TWYON. Yes.

Mr. BARR. So this report was paid for by the taxpayers of this country?

Ms. TWYON. Yes. I assume so.

Mr. BARR. OK. Your document is not a classified document, is it?

Ms. TWYON. You are asking me something I do not know how to answer. It was a confidential document. I do not know what classified means here, so I do not know how to answer you.

Mr. BARR. OK. I have a copy of it here and I would ask unanimous consent to have it included in the record.

Mr. MICA. Without objection, so ordered. It is now a public document.

Mr. BARR. Do you have a copy of it?

Ms. TWYON. Yes, I do.

Mr. BARR. Do you see any markings on there that indicate that it is a classified document or that any portion of it is classified?

Ms. TWYON. No, it is my copy.

Mr. BARR. OK. Neither does our copy. On page 19, under your summary it states that "The savings range of \$8.5 to \$14.8 million is reasonable to expect. The agency can always add to staff to help the ONDCP better perform and at the same time increase the agency revenue. The point is not in justifying the staffing, but in finding ways to realign the manpower to industry standards." You do not disavow that finding, do you? You stand by it?

Ms. TWYON. No, not at all. I support that.

Mr. BARR. OK. Thank you.

Continuing on with your report of April 13th, Mr. Pleffner, in the middle of page 2 you state, "He stated that last summer, Bill Gray, president of Ogilvy New York, held a meeting with the most senior account staff and complained about the lack of revenue with this contract." And a little bit further down you seem to indicate that there might be a connection between the senior official at Ogilvy, Mr. Gray, complaining about the lack of money coming in on the contract and then additional time sheets and altered time sheets coming back in. Is that correct?

Mr. PLEFFNER. That is correct.

Mr. BARR. Further on down in the next paragraph, the last sentence reads: "The fact that an outside source, particularly an executive level employee, corroborates these concerns, prompts me to formally document these issues in this communication." Did you believe at that time, and do you believe as you sit here today, that there was credible evidence to substantiate your concerns as related to the Director of ONDCP? Did you feel that there was a substantial basis and credible evidence on which to base your conclusions that there were questions here and that there ought to be an immediate audit?

Mr. PLEFFNER. At that time, yes, I did believe.

Mr. BARR. Do you still believe that there is sufficient evidence, credible evidence on which to base that conclusion?

Mr. PLEFFNER. Of billing irregularities, the Ogilvy practices associated with financial and contract management, yes, I still believe it is necessary.

Mr. BARR. If I could, Mr. Hast, turn to your testimony today, a copy of which I believe, Mr. Chairman, has been placed in the record. One thing that caught my attention, on the bottom of page 2, you say, "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." Would that be covered by ethics and be required to be reported? In other words, if an outside contractor provides services and does not charge them, that would be considered——

Mr. HAST. I am not enough of an expert on ethics to know. We were reporting the facts. But I do not know what the ethics rules would be on that.

Mr. BARR. Dr. Vereen, are you aware of whether or not that has been reported?

Dr. VEREEN. No, I am not.

Mr. BARR. OK. Are there any lawyers from DEA here with you all today?

Dr. VEREEN. Lawyers from ONDCP, yes, I believe there is one.

Mr. BARR. OK. Would you consult with him and ask if that has been reported under ethics.

Dr. VEREEN. Not to his knowledge.

Mr. BARR. OK. Would you suggest to him that the Director may want to check into that.

Dr. VEREEN. Noted.

Mr. BARR. Mr. Hast, I would like to draw your attention for a couple of minutes here to what has happened after the April 13th memo. We have some concerns that are based on credible evidence that there are serious discrepancies in billing practices and costs. But nothing happens. There seems to be some dispute here as to the position of the head of ONDCP with regard to whether or not the contract would continue, whether or not costs are an issue or not an issue. You deal with some of this in your complete testimony on pages 4, 5, and 6.

The conclusion, at least the partial conclusion that you reach on page 6, is that "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." But thereafter, there were additional meetings that you document. For example, on page 8, you say "Ms. Seifert told us that on June 5, 2000, she had a private meeting with Director McCaffrey for approximately 20 minutes. She 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." Then continuing on down on your page 8, in the middle there is a paragraph that reads, "Mr. Pleffner told us that after Ms. Seifert left the June 5, 2000, meeting with General 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. Mr. Levitt and Ms. Bartholomew deny that this conversation occurred. Ms. Seifert denies making this statement."

What was the basis on which you included these references in here, and do you believe that those conversations took place?

Mr. HAST. I believe when we interviewed Mr. Levitt and Ms. Bartholomew we were under the impression that when Ms. Seifert came up she said that the General was satisfied with the billing and no audit would take place, and they said she did not say that. I think they were technically correct that she did not come out and say no audit would take place. What she said was the General was satisfied with the price. And I think that is what Mr. Pleffner and Mr. Levitt—

Mr. LEVITT. Congressman Barr, I said nothing whatsoever about any audit.

Mr. BARR. Excuse me just a minute. And that is precisely what your testimony says. It does not say that somebody said that the audit would not be performed. It simply says, as you have just testified orally, that Ms. Seifert announced that Director McCaffrey was satisfied with the contract costs and that the Ogilvy contract would continue. Was that corroborated by information or answers or testimony given to you by Mr. Pleffner?

Mr. HAST. Yes.

Mr. BARR. OK, Mr. Levitt?

Mr. LEVITT. As I said before, Ms. Seifert told me that in the meeting that she had with General McCaffrey he expressed more comfort with the issues of the labor, not billing, but the labor, the Jane Twyon report. She said nothing whatsoever about an audit. There was no discussion of an audit.

Mr. BARR. Mr. Pleffner, you authored the original memo here on April 13th. It is my impression that you testified that Mr. Levitt said that costs were not an issue based on the results of that meeting. Is that correct?

Mr. PLEFFNER. That is correct.

Mr. BARR. This is why, Mr. Chairman, there are so many questions about this. We have a memo that is based on very clear and convincing evidence, credible evidence that an audit should take place. Then we have some meetings that appear unusual, at least according to standards of previous practice in that there were no witnesses there. And then we have essentially an announcement that the contract costs were OK, Mr. McCaffrey was satisfied with them, and the contract would continue. And here we come 4 months later and still no audit has been taken. This stretches the meaning of immediate beyond even I think the standards laid down by the head of this administration.

Mr. MICA. Will the gentleman yield?

Mr. BARR. Yes.

Mr. MICA. One of the things that concerns me is the report by Ms. Twyon that highlights the costs for this program. She identified, and she is sort of an expert consultant to come in and look at that, ONDCP costs is 179 percent above industry average. Is that correct?

Ms. TWYON. I have to find the page that you are—

Mr. MICA. And then a commission rate of 14 percent versus industry rate of 3.5 percent.

Mr. CUMMINGS. Mr. Chairman, she was trying to answer the question. I just think it would be beneficial to all of us—

Mr. MICA. I am just trying to help identify the page.

Ms. TWYON. Yes. It is just that I have a lot of numbers in the report. So if you will just give me a minute, I will be able to answer you more clearly, I can try to answer you more clearly.

Mr. MICA. I can have a staff person bring this down.

Ms. TWYON. No, I have it. I have it right here.

Mr. MICA. Our vice chairman was making some points and I just wanted to confirm that this is what you found in your examination and were paid for.

Ms. TWYON. The answer is what you are reading there is what I found based upon the information that I was given, and I was given specific information from Mr. Pleffner of what I was going to look at, and the assumptions which are listed in my report that I made.

Mr. MICA. That is all I wanted to confirm. Thank you. I will yield back to the gentleman.

Mr. BARR. Thank you. Mr. Hast, have you all interviewed Mr. Bill Gray, president of Ogilvy New York?

Mr. HAST. We have not yet.

Mr. BARR. Do you have plans to?

Mr. HAST. I believe that we are going to wait till we see how the financial audit goes. And if they determine there are suspicions of fraud, we will be back to interview people at Ogilvy about this.

Mr. BARR. That might be some period of time it appears.

Mr. HAST. It could be, yes.

Mr. BARR. Do you believe there might be a case to be made based on just the information contained in Mr. Pleffner's memo to interview Mr. Gray before some indefinite point in the future?

Mr. HAST. Yes, I think there could be a case made for us to do that.

Mr. BARR. Would you be in a position to take such steps?

Mr. HAST. Absolutely.

Mr. BARR. OK, if you would please. Thank you.

I yield back.

Mr. MICA. I thank the gentleman.

I would like to recognize the gentleman from Maryland, Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Mr. Hast, I am just curious. Something just happened that I found very interesting. At first, I thought you had indicated that you were going to go through a certain procedure to wait for certain documents before the interview was conducted with Mr. Gray. Then when Mr. Barr suggested that you do it, did you say you were going to do it now? I am just trying to figure out what happened.

Mr. HAST. Yes. I believe that we were going to wait before we conducted any more interviews until we see how the audit came out. But since this question was raised and it can be a yes or no answer from Mr. Gray as to whether—the only thing we would interview him about is did he have a meeting with his executives where he told them that they were not making enough money on this contract, and did he give them any instructions. I think we could do a very simple interview and pin that down.

Mr. CUMMINGS. I understand that and that makes a lot of sense. Can you tell me why it is that your plan was to wait for the audit? Why did you want to do that before possibly interviewing Mr. Gray? I am just putting aside what you just said and am now going on to the original plan?

Mr. HAST. The original plan would be if the audit completely exonerated Ogilvy, and the audit found absolutely nothing irregular with the billing sheets, and all of the people that we interviewed whose sheets have been changed had answers that absolutely made sense and there was no suspicion of fraud, there would not really be a necessity to do it.

Mr. CUMMINGS. I see.

Ms. Twyon, first of all, I do not know whether anybody did it, but around here we are very concerned about our reputations too. They are the things that get us elected. If you have been harmed in any way, I apologize for us.

Ms. TWYON. Thank you.

Mr. CUMMINGS. Let me just ask you this for the record. Your report, did you have a finding of over-billing?

Ms. TWYON. I did not look at any billing of manpower. That was not part of my charge.

Mr. CUMMINGS. And what were you doing? Since your report is so significant, I want to make sure that we have it clear. We have got C-Span looking at this and maybe some of your comrades are looking at it. I want to make sure you are very clear because I think it is important to everybody involved.

Ms. TWYON. It is non-media compensation. It is the cost of manpower and the number of manpower hours is what I was looking at.

Mr. CUMMINGS. So I take it that you would not have found any fraudulent activity by anyone because that was not in your purview. Is that right?

Ms. TWYON. That is correct. I did not have any documentation of anything like that I was even evaluating.

Mr. CUMMINGS. I guess this would be directed to Mr. Vereen or Mr. Levitt. Ms. Twyon reports that a 15 percent commission rate is traditional for the purchase of advertising time and space. Is that correct, Ms. Twyon?

Ms. TWYON. Yes. It is a historic number. Today it is no longer true, but years ago that was the number that agencies earned, 15 percent.

Mr. CUMMINGS. In addition, the report states that a consumer could even negotiate a commission as low as 7.5 percent on a large advertising purchase due to increasing advertising industry competition. Is that correct?

Ms. TWYON. Yes, but I am isolating then specific assignments. It may not be the total assignment of doing creative and media and PR and everything that an agency might do. So that there are varied commissions depending upon what the assignment is to the agency.

Mr. CUMMINGS. Mr. Levitt or Mr. Vereen, who negotiates the commission? How is that done, do you know? Is it your legal department?

Mr. LEVITT. Mr. Pleffner is actually the person to ask.

Mr. CUMMINGS. Mr. Pleffner, how is that determined?

Mr. PLEFFNER. Early on in the second year of the contract, I requested that Ogilvy submit a project plan, a proposal for media and non-media costs. That was submitted to ONDCP on March 8th. It was as a result of that media plan and the increased costs that we had identified that we retained Jane Twyon to assist us in analyzing. We have been in discussions with Ogilvy since spring of 2000.

Mr. LEVITT. Congressman Cummings, let me make one comment?

Mr. CUMMINGS. Sure.

Mr. LEVITT. I think there have been many misunderstandings here and also in the media about Ms. Twyon's report, which I think is a very, very good report. It is a directional report. It helps us focus on what kind of labor structure we want in the future—do we want so much behavioral component, do we want so much of the media buy.

There are a couple of things that Ms. Twyon did not realize at the time. First of all, the report that she was asked to analyze had about \$1.5 million more I think of labor and overhead costs than was reality, because during the time that she analyzed it, Ogilvy came down about \$1.5 million in their costs. So it is inflated from that point of view. She also had to make certain assumptions, which she clearly mentions in her report, and she also mentions that there are certain unique things to every advertiser that she may not be aware of.

This campaign is for all Americans. We have 11 languages. We have a science-based approach. One ad, one time on ER or a program like that can cost a half million bucks for 30 seconds of taxpayer's funds. There is a greater accountability on the part of the Government. So we require a higher level of testing, a higher level of behavioral components, audience focus groups, much more so than if you are just selling Kleenex. This is a behavior/attitude change campaign. It is not a consumer product marketing campaign. And there are a lot of differences. That is what the experts told us was going to work.

Mr. CUMMINGS. Does that affect the rates?

Mr. LEVITT. I do not know if it affects the rates. It affects the labor structure, and I do know it affects the pro bono match. Congress has mandated a pro bono match, and Ms. Twyon has accommodated a big chunk of that. But what she probably did not know is that when you traffic an ad, when you—let me just give you an example. If you win a gold medal 1 day in the Olympics, you could be on TV in 2 days with a commercial. In our program, because it is evaluated by the National Institute of Drug Abuse, and because we have all these accountability measures, it will take at least 2 months and testing and coordinating with a dozen organizations in the behavioral science field, in NIH, with the Annenberg School of Communications. So it is a lot more labor intensive. And some of that she may not have taken into account and that may have skewed why it is so much above average.

I think what is unfortunate here is that advertising clients have people like Jane Twyon come in, she has a wonderful reputation, she was recommended by the Ad Council, and her report is being taken out of context completely. What happens when the next Government agency wants to bring in an outside consultant?

Mr. CUMMINGS. All right. I understand.

Ms. Twyon.

Ms. TWYON. I have to agree with what Mr. Levitt said. I do the absolute best I can, but, as I state in my report, I make assumptions. That is required. I am very careful to list my assumptions, which I did. It does not mean that they are right; they are just the best I could make so that we can move forward. So there is information that I do not have because I am not working in the field, I am just given a report and I go away and do my analysis. I will

give you one of the specifics that I did not realize when I first did my report. When I initially did my report on the manpower issue area, there was a line called "production." I made the assumption, since everything else was manpower, that was manpower. In the end, I found out that was not manpower, that was actual production cost. So I can make mistakes because I do not know pieces of information.

My report, let me say again, is the beginning. It is not the final product. Think of it like a roadmap. You now take this roadmap and you work with the agency, Ogilvy, and ONDCP to figure out what is there. It lists everything very clearly so now you have a place to go. You know if you are going to move manpower from one discipline you have to put it someplace else. If you change an assumption, you know why you are going to change the assumption. That is the point, it is a very good base to move forward from.

Mr. CUMMINGS. Mr. Levitt, you said something that I am just curious about. You said that while Ms. Twyon was doing her report the costs, and correct me if I am wrong or misquoting you, the costs from Ogilvy came down. Did you say something to that effect?

Mr. LEVITT. Yes. The proposed cost for the following year's budget was reduced by Ogilvy. We had been talking to Ogilvy a couple of months before this, not just Ogilvy but all of the contractors in the media campaign. There was huge inflation because of the rich ad climate in the last several years. There was actually increased costs because of our success—we have had a million phone calls into our clearinghouse from parents asking for information. All these things jack up the costs for printing or other kinds of labor.

We have looked at all our contractors, including Ogilvy because they are the biggest one, and we have had a series of meetings. In fact, we are talking now about possibly taking a number of other activities and transferring them to other organizations or maybe we do not need that level of effort this year in the campaign. It is not a matter of this over-billing or are we paying for labor that we do not need, rather, do we need this level of effort at this stage of this campaign.

We have asked Ogilvy to do a lot more work for us. We have asked them to do ads on ecstasy and meth and heroin. We have asked them to do a huge Internet component. The Internet is surging. For African-American and Hispanic families, Internet use has surged almost 500 percent in the last 4 years. The previous campaign, by the Partnership for Drug-Free America, as good as it was, did not have a huge Internet component. We are doing a variety of other things with this campaign. Reaching out to the entertainment industry. Last week, actually somebody from Chairman Mica's district, Tinker Cooper, spoke to 20 writers and producers on ecstasy, about the unfortunate problems her son had with it. So Ogilvy is involved with a lot of these other activities that may not be apparent. This is not just an ad campaign. It is a comprehensive public health communication campaign.

And can I just add one other thing?

Mr. CUMMINGS. Briefly, because I want to get to Mr. Hast. I have a number of questions.

Mr. LEVITT. We are extremely proud of this program. It is working, including the financial component of it. We have had seven

hearings, we have provided this committee with 18,000 pages of documents, and we have cooperated with the GAO, and we will continue to. But we are very comfortable with what we have done.

Mr. CUMMINGS. Now when Ogilvy appeared in Mr. Mica's district, did they bill you for that?

Mr. LEVITT. When what?

Mr. CUMMINGS. You just said a few minutes ago they were in charge of something in Mr. Mica's district. You did not?

Mr. LEVITT. No.

Mr. CUMMINGS. What did you say?

Mr. LEVITT. One of the people who testified before this committee I think a year ago, Tinker Cooper, lost her son to ecstasy and heroin. She was from Congressman Mica's district. We actually brought her and somebody else to this roundtable discussion last week and it was very, very successful.

Mr. CUMMINGS. Thank you.

Mr. HAST, I just want to make sure the record is clear. You had certain findings that you provided us in your opening statement, is that right?

Mr. HAST. Yes.

Mr. CUMMINGS. You had some findings. I just want to make it so clear that we have a complete record, and this may not be a complete record even with the questions I am going to ask you. The findings that you provided I think are partly why we are here today. But I want to just ask you about some other ones.

Another GAO inquiry recently found that ONDCP "has met most mandates" regarding the media campaign funds and program guidelines. Are you familiar with that?

Mr. HAST. Yes.

Mr. CUMMINGS. And was that a part of the same inquiry?

Mr. HAST. No.

Mr. CUMMINGS. OK. And were you involved in that?

Mr. HAST. I was not.

Mr. CUMMINGS. So did you review that in the process of doing what you have been doing in regard to your investigation?

Mr. HAST. Yes. We discussed that investigation with the people that did it. I really did not read it.

Mr. CUMMINGS. OK. You did not read the investigation?

Mr. HAST. I did not read the audit that the other group did. But I did discuss it with them in our General Government Division. The management review, I am sorry.

Mr. CUMMINGS. Wait a minute. Let's rewind. GAO did an audit, a management review?

Mr. HAST. A management review, I am sorry.

Mr. CUMMINGS. And they reviewed ONDCP?

Mr. HAST. Yes.

Mr. CUMMINGS. And you did not read the document?

Mr. HAST. I did not.

Mr. CUMMINGS. Are Mr. Sullivan and Mr. Cooney with you?

Mr. HAST. Yes.

Mr. CUMMINGS. Did you all read it?

Mr. SULLIVAN. Yes, I read the document. I am the Assistant Director in charge of the squad that handled the investigation. I read

the document and Mr. Cooney read the document. Mr. Hast is our boss.

Mr. CUMMINGS. OK. Did you share the information that you found with Mr. Hast?

Mr. SULLIVAN. Yes, we briefed Mr. Hast after we digested the document. At every step of the investigation we briefed Mr. Hast as to how the investigation was progressing.

Mr. CUMMINGS. So, basically, Mr. Hast is over you and you all are sort of doing the day-to-day work?

Mr. SULLIVAN. Yes, sir, Mr. Cummings, that is correct.

Mr. CUMMINGS. I see. Fine. The question that I just asked Mr. Hast is, is it correct that report said ONDCP had met most of its mandates?

Mr. SULLIVAN. Mr. Cummings, that is absolutely correct. However, the management review did not focus on any of the allegations of fraud. So they just looked at, as mandated by the Appropriations Committee, whether this program was following the guidelines that Congress set.

Mr. CUMMINGS. I see. OK. And this investigation you are talking about you are saying is zeroing in on fraud. Is that correct?

Mr. SULLIVAN. Our investigation, Mr. Cummings, was we were specifically requested to examine the allegations that the suspicions of false billing were brought to the attention of ONDCP management and the allegation was they did nothing with those allegations and the audit was never conducted that was initially ordered by General McCaffrey. That is what we were asked to look at, whether or not the response of ONDCP was appropriate or not.

Mr. CUMMINGS. So you were asked about whether they responded to these allegations and the response being an audit. Now that is what I think you just said. Is that right?

Mr. SULLIVAN. No, sir.

Mr. CUMMINGS. OK. Say it again.

Mr. SULLIVAN. Just to narrow the focus, we were asked, within the very narrow parameter, whether or not ONDCP responded appropriately when the allegations of false billing was first brought to the attention of senior ONDCP management. In other words, what did ONDCP management do as a result of the April 13th memorandum authored by Mr. Pleffner; if an audit was not conducted, why was it not conducted immediately; and what other response was taken in regard to that memo.

Mr. CUMMINGS. Now did Ms. Twyon's report play a significant role in what you all have been doing?

Mr. HAST. I would say that it did not. It was part of the memo that we reviewed, and as much as it played a role in that memo, I think it played a role in our investigation.

Mr. CUMMINGS. Now is it true that, in evaluating how funds for paid advertising were managed and dispersed, GAO found that although ONDCP used administrative contract support from other Federal agencies to assist with paid advertising contracts, it remained responsible for ensuring that only valid campaign expenses were paid out of from ONDCP, and that ONDCP had processes in place to monitor and approve all paid advertising expenditures before paying vendors and reporting to Congress?

Mr. SULLIVAN. Mr. Cummings, that is our understanding. We ascertained that from the interviews we conducted with Mr. Pleffner and other officials at ONDCP responsible for managing the contract. So that is our understanding, sir.

Mr. CUMMINGS. I know, Mr. Hast, the question was asked whether you had met with Mr. Gray. But is it true that Ogilvy and Mather officials were interviewed by GAO?

Mr. HAST. There were several Ogilvy and Mather officials interviewed.

Mr. CUMMINGS. And during those discussions, I take it those were extensive interviews?

Mr. HAST. Yes.

Mr. CUMMINGS. Did the question of fraud come up?

Mr. SULLIVAN. Yes, sir, it did.

Mr. CUMMINGS. OK. Is that a part of the 91 page report?

Mr. SULLIVAN. No, sir.

Mr. CUMMINGS. Can you tell us why?

Mr. SULLIVAN. The allegations that we were investigating had nothing to do with the initial management review that was conducted by the General Government Division. We are the investigative arm of GAO and we were specifically mandated to conduct an investigation to determine the response to the allegations that were originally raised in the April 13th memorandum.

Mr. CUMMINGS. Now ONDCP, I guess this would be Mr. Levitt or probably Mr. Pleffner I would guess, is it customary in your review of invoices, before recommending payment or nonpayment, to express any concern to the contractor about the costs? I mean, if you saw something that looked a little irregular, would it be your custom to say wait a minute, red flag, there is something wrong here?

Mr. PLEFFNER. It is customary to discuss with the contractor concerns, as I did with Ogilvy.

Mr. CUMMINGS. And as I looked at your memo, the memo that is on the board there, I take it that there came a point in time when you brought it to the attention of people in your agency. And then at what point did you get additional information? In other words, you had the information that had come to you through the process of doing your job, and you inquired I think of the Ogilvy people exactly why do I see these problems. At what point did other outside sources come—did they come before, did they come later—to tell you that there might be something wrong here? In other words, that the information that you may have been given by Ogilvy was not necessarily accurate.

Mr. PLEFFNER. The issues relating to irregularities with Ogilvy's invoices were first raised in September 1999. There were probably a half dozen labor invoices where I identified these problems, communicated the problems to Ogilvy and the contracting officer. It was March 2000 that I had a former Ogilvy employee come to me and make the allegations that prompted me to write this memo to the Director.

Mr. CUMMINGS. And you knew that person?

Mr. PLEFFNER. Yes, I did.

Mr. CUMMINGS. And you felt comfortable that person's word was true?

Mr. PLEFFNER. I had no reason to not believe him. He did not provide any evidence. This was a phone conversation we had. But in my position, you never take this kind of allegation lightly. A number of the allegations made were consistent with concerns that I had with regard to the labor billing.

Mr. CUMMINGS. And when you talked to Ogilvy, your first discussions with them were when?

Mr. PLEFFNER. As far as the billing issues?

Mr. CUMMINGS. What you just talked about, yes.

Mr. PLEFFNER. The first discussions on billing issues was late September 1999, early October 1999.

Mr. CUMMINGS. And what were you told back then by Ogilvy?

Mr. PLEFFNER. By Ogilvy, they stood by the invoices they submitted.

Mr. CUMMINGS. And what was your reaction to that at that time?

Mr. PLEFFNER. At that time, my reaction was to do my job, which was to recommend withhold of any costs I believed were inappropriate or unsupported, which I did.

Mr. CUMMINGS. Mr. Levitt.

Mr. LEVITT. Can I put into context the kind of withholds that we would have?

Mr. CUMMINGS. Yes.

Mr. LEVITT. I think there is a nefarious tone in some of the questions and in some of the news accounts about this. Ogilvy had never worked for the Federal Government before. There are a maze of issues dealing with the Federal Government; high levels of accountability for media, proof that it ran on your TV station, small business, EEO, women-owned business, a whole variety of things—and I could provide that for the record if you want—that are not difficult to obtain but that are strange in the ad culture, in the ad industry. In the ad industry, when you produce an ad, or in the movie business when you shoot a program, you have got a platter of food in the background, the cameraman and everybody else eats. You cannot pay for food in the government. You cannot fly first-class in the government. There are also issues of should the bonus go in the overhead or direct salary account. A whole range of issues.

There was not just one issue. Most of them had to do with labor-related issues. But, again, this could be an innocent thing. And Ogilvy also has had three different financial people involved in the billing over this period of time. They now realize they have to get somebody who really knows about the Federal acquisition process. But at least the billing part could be completely just part of the routine financial oversight that a government agency does with its contractors. As I said before, we have withheld from all of our contractors and subs and even government agencies that we have cooperative agreements with.

Dr. VEREEN. And we would be happy to provide that documentation as well.

Mr. CUMMINGS. I would like to have that, Mr. Chairman.

I just have two more questions. When you got the Twyon report, and I do not know who is best to answer this, did you have discussions with Ogilvy with regard to that report?

Mr. LEVITT. Yes. We have had several discussions with Ogilvy. In fact, Ms. Twyon was in a meeting with Ogilvy discussing her report. They came down, they brought their president, Bill Gray, and other financial people, as well as Ms. Seifert, the project officer, to discuss it and respond. And we have had two meetings like that. We have also had two very lengthy analyses of Ogilvy's labor structure and proposals. They have come down a little bit, but also proposals of why these things cost so much in different categories and some options for us to reduce the costs even further.

Mr. CUMMINGS. Did they provide you any explanation on the difference in their costs and those recommended by Ms. Twyon?

Mr. LEVITT. Yes, to some degree. Part of it was what I just mentioned, that there were some things that she did not take into account. And there were legitimate differences of opinion also between Ogilvy and the Federal contracting process.

Mr. CUMMINGS. My last question to Mr. Hast. Is there any other evidence, and I understand from Mr. Sullivan, and I appreciate your testimony today by the way, it sounds like the Twyon report was not a very significant thing in what you all did; is that right? I think I asked that.

Mr. HAST. Yes. Only in how Mr. Pleffner analyzed it in his document. Other than that, we did not do a lot with the Twyon report.

Mr. CUMMINGS. OK. And do you agree with her, from what you all have seen, that report does not really deal with over-billing, or does it? Does it allege over-billing?

Mr. HAST. I am really not an advertising industry expert and that is really why we did not deal much with that report, because I think you would have to be in the field to really understand it.

Mr. CUMMINGS. And so, other than the Pleffner memo, I think that is about it, is there any other reason for you all to believe that Ogilvy committed any kind of fraudulent activity here? I mean from stuff that you have.

Mr. HAST. I would not want to say that we believe it. I think we have interviewed other people that have substantiated the allegations in that memo to the point that I think it requires further investigation. But at this point, we have absolutely no proof of fraud by anyone.

Mr. CUMMINGS. Thank you. Thank you very much.

Mr. BARR [presiding]. Mr. Sullivan, I think you testified earlier in response to questions from the gentleman from Maryland that one of the things that you all were tasked with looking at was whether or not ONDCP responded appropriately to the allegations of false billing, as brought to the Director's attention in early 2000. At this point, do you believe that ONDCP did or did not respond appropriately?

Mr. SULLIVAN. We have not formed any final conclusions as to whether they responded appropriately or not. We were just conducting the investigation and we are presenting the facts for the subcommittee to draw your own conclusions.

Mr. BARR. You have not formed any conclusion one way or the other?

Mr. SULLIVAN. No, I have not formalized a final conclusion myself, Mr. Barr.

Mr. BARR. Do you believe it is appropriate to order an immediate audit in the face of such allegations and for another 6 months to go by and no audit is even close to being performed? Do you believe that is an appropriate response?

Mr. HAST. Mr. Barr, if I could answer that. I believe if someone thought there were allegations of fraud, they should move very quickly. I think in a number of our interviews, especially with General McCaffrey, the view of this was billing irregularities. And although fraud was mentioned in the memo, I do not believe from our interviews that was where his focus was.

This was also sent to his General Counsel. I think that is the role of attorneys. The attorneys that reviewed this I think should have taken the fraud more seriously and probably recommended moving somewhat more quickly.

Mr. BARR. According to your written testimony, the ONDCP General Counsel, Mr. Jurith, told you that they were aware of the billing irregularities. So apparently ONDCP knew that there were billing irregularities. Correct?

Mr. HAST. Yes. And he initialled the memo with the allegation that there was possible fraud.

Dr. VEREEN. Mr. Barr, may I make a comment?

Mr. BARR. Sure.

Dr. VEREEN. Those billing irregularities led us, well before this memo, to explore options to change the contract and initiate an audit. This predates the memo. All of that was in place predating the memo. And I draw your attention to the end of the second page, you mentioned the word "immediate," the immediate refers to upon the moment that the contract is transferred. We have attempted, as Mr. Pleffner related earlier, attempted to negotiate an early audit without incurring extra costs. That did not happen. But we already had a plan in place to change the contract, to initiate an audit. Unfortunately, that has taken a while, and that is about to be—

Mr. BARR. That is real unfortunate. That is the whole question here. This has been going on for over a year. I know immediate might mean one thing to somebody and maybe 2 or 3 more days to somebody else. But this has been going on for over a year. This is taxpayer money we are talking about.

Dr. VEREEN. This is true. But we have talked to the Department of the Interior, we have talked to the Department of the Navy, and others to see who else could handle such a complex contract.

Mr. BARR. How about GAO?

Dr. VEREEN. I am not aware that we checked with GAO.

Mr. BARR. This is what they do for a living.

Dr. VEREEN. There is a new GAO review that has started last month that we are a part of, that we are cooperating with.

Mr. BARR. That is exciting, too. Maybe we will see some results immediately there too?

Dr. VEREEN. I am sure as fast they can get a report to you. Most audits take approximately 6 months.

Mr. BARR. Once they get started.

Dr. VEREEN. Yes.

Mr. BARR. This one isn't even started.

Dr. VEREEN. But you have from our records and our accounting to you a full and open discussion. You know exactly what we know in terms of billing irregularities.

Mr. BARR. Well, let's see. Mr. Hast, according to your testimony, you all were told in March of this year, March 2000 that Mr. Dan Merrick had contacted Mr. Pleffner and Jill Bartholomew, ONDCP's Deputy Director for National Media Campaign, and Mr. Merrick told them in March of this year—that is how many months ago, 7—that Ogilvy was falsifying billing records. We are not here to have a legal debate over what constitutes fraud in terms of proving each and every element thereof beyond a reasonable doubt. I am using your words here. You all were told in March 2000 and ONDCP knew 7 months ago, at the latest, that Mr. Merrick told them that Ogilvy was falsifying billing records. Correct?

Mr. HAST. Yes, that is correct.

Mr. BARR. And here we are 7 months later and ONDCP has done absolutely nothing. Is that an appropriate response?

Mr. HAST. No, I do not think so.

Mr. BARR. And I appreciate that. I think that is a correct answer. ONDCP has not responded appropriately despite your best intentions. That is the problem. There is evidence of false billing here involving taxpayer moneys, and this has been going on for a period of time and you all have known about it for a period of time, and here we are still worrying about some blue folder floating around within Department of the Navy and you all have not even ordered an audit. That is why we are concerned about this.

Dr. VEREEN. Even as that is occurring, sir, the shields are up. The media campaign is protected and well-run with the exacting scrutiny that we have illustrated to you. So funds are going nowhere without the proper documentation, sir.

Mr. BARR. The only one that seems to be conducting any exacting scrutiny was Mr. Pleffner. He had it pegged right. And Mr. Hast seems to have it pegged pretty right here.

Dr. VEREEN. And thanks to his efforts, we have been aware and he is continuing to do his job properly.

Mr. BARR. Who is?

Dr. VEREEN. Mr. Pleffner.

Mr. BARR. That is good. But why have you all not conducted an audit?

[No response.]

Mr. BARR. The silence is deafening, Dr. Vereen.

Dr. VEREEN. We have explained that we had moved to change the contract and changing the contract at the end of the contract would come—

Mr. BARR. HHS said that they would conduct an audit.

Dr. VEREEN. No, they said they would not conduct an audit.

Mr. BARR. Now you are changing. They said that they would conduct an audit if they were paid for it, if they were paid for the time necessary to conduct an audit.

Dr. VEREEN. And we had indicated that we had already paid for it. That was our understanding. That was not resolved, so we were in the process of changing the contract completely so that would not be an issue any longer.

Mr. BARR. How much money are we talking about for that audit, \$300,000, \$325,000?

Mr. PLEFFNER. I would estimate in the neighborhood of \$100,000, \$125,000.

Mr. BARR. We are talking about a billion dollar contract here with evidence of billing irregularities, false billing records.

Dr. VEREEN. It would still come out, sir. Right now, those payments are being withheld until proper documentation is provided. And it will come out in an audit if that is the case. At this point, the campaign is functioning very well, it is continuing to go forward, and we will continue to withhold payments until those billings get cleared up. And an audit will certainly identify those. But in the meantime, the entire campaign is being properly managed with a level of scrutiny that you can see is certainly satisfactory. The campaign is safe and proceeding forward. The audit will happen when the contract changes.

Mr. LEVITT. Congressman, can I make a statement?

Mr. BARR. Sure.

Mr. LEVITT. I managed this contract or have managed the program, or helped General McCaffrey to manage the program. My goal is giving the best value to the Government, including the financial aspects of it.

Mr. BARR. When was the very first time that you were made aware that there was possible fraud, there were billing irregularities, false billing? When were you first made aware of that?

Mr. LEVITT. The first time the word fraud came into my office—

Mr. BARR. Now do not play word games. I am not trying to pin you down to the word fraud. OK? We have been through all that before.

Mr. LEVITT. Shortly after Mr. Pleffner was—

Mr. BARR. Not until April?

Mr. LEVITT. End of March, April, I do not know when.

Mr. BARR. You know Mr. Merrick, don't you?

Mr. LEVITT. Yes, I do. I think he is an outstanding advertising person.

Mr. BARR. He has done prior work with ONDCP, correct?

Mr. LEVITT. He was our project officer at Bates and also co-project officer at Ogilvy. Outstanding integrity and outstanding performance.

Mr. BARR. So you were aware that this evidence existed very early in the year 2000, at the latest. I mean, you tell me.

Mr. LEVITT. At the end of March or April.

Mr. BARR. Not in the fall of 1999?

Mr. LEVITT. No. After he was separated.

Mr. BARR. When was the first time, Mr. Pleffner, that you had any discussion at all with Mr. Levitt bringing to his attention what you believed was evidence of false billing and irregularities and/or fraud?

Mr. PLEFFNER. The irregularities first were identified in early October, late September or early October 1999. Fraud was never mentioned until Mr. Merrick came to me in mid to late March in the year 2000.

Mr. BARR. Did you have discussions with Mr. Levitt sometime about these matters and the evidence that was coming to your attention in the fall of 1999?

Mr. PLEFFNER. Immediately upon me recognizing the problems, I did share it with Mr. Levitt and our Office of Legal Counsel, yes.

Mr. BARR. Thank you.

Mr. LEVITT. Congressman, we, and this may have figured into the decision not to audit, we were getting exceptional performance by Ogilvy. They had saved us over \$5 million just this year in their up front media buy over the industry average. They have led people like Tara Lipinski and Women's World Cup Soccer to us. They have gotten a contribution from Turner Broadcasting for almost \$900,000.

Mr. BARR. Nobody here is arguing their competence. They may be the greatest advertisers in the world.

Mr. LEVITT. But I am talking about the value to this program and to—

Mr. BARR. We are talking about fraud. We are talking about—

Mr. LEVITT. You see, it did not compute.

Mr. BARR. What did not compute? Just because they are doing a good job, the evidence of false billing does not compute?

Mr. LEVITT. I think allegations by a person who was separated and with no evidence should be weighed against the exceptional performance of this thoroughbred agency.

Mr. BARR. Mr. Pleffner looked at the time sheets. They do not lie.

Mr. LEVITT. That is a different issue, sir.

Mr. BARR. No. I am talking about the false billing.

Mr. LEVITT. I am talking about an allegation of fraud versus billing issues, which we have with all of our contractors, and probably every Federal agency has with their contractors.

Mr. BARR. Have false billing?

Mr. LEVITT. Questionable bills.

Mr. BARR. No. I am talking about false billing that was brought to your attention in the fall of 1999.

Mr. LEVITT. Whether you use the word false, over-billed, it is a question of semantics. I am talking about fraud. We had no evidence of fraud, no convincing evidence of any kind, otherwise we would have gone up with that in a second.

Mr. BARR. You had evidence that there was false billing. You all may think there was no false billing. This is the language in GAO's report. And Mr. Pleffner has testified to that and he has testified that he had discussions with you about it.

Mr. LEVITT. Again, as I mentioned, I do not know if you were here earlier this morning, but if I put in a taxi voucher and I add it up the wrong way, am I defrauding the Government? There are mistakes, there are differences in interpretation what could be allowed and what could not be. Some of these were legitimate differences or misunderstandings or sloppiness.

Mr. BARR. You are talking like a defense attorney for this company.

Mr. LEVITT. I do not mean to be.

Mr. BARR. Do you all have any further questions?

Mr. PLEFFNER. If I could clarify one point. Until the phone call from Mr. Merrick, I had never mentioned to anyone any concerns about fraud or false billing. What I brought to my boss' attention, Mr. Levitt's attention, and Office of Legal Counsel was billing irregularities. A number of costs, I will admit, a number of the irregularities were unallowable costs in my opinion. But the word fraud was never brought up until the conversation in mid to late March with Mr. Merrick.

Dr. VEREEN. And that was properly reported up the chain of command so that we were all aware. And we proceeded on with our management of this to protect the media campaign so that it could go further.

Mr. LEVITT. And Congressman, since HHS disagreed with Mr. Pleffner on at least some of these bills, it shows that there can be different interpretations sometimes of Federal Acquisition regulations and contracting rules. It does not mean one is defrauding the other. It means there could be a legitimate difference of opinion.

Mr. BARR. Isn't that why an audit is conducted?

Dr. VEREEN. That is why, I will repeat, we were taking steps with other Federal agencies to change the contract.

Mr. BARR. I know, and you have been taking steps for the last 7 months. That is very reassuring.

Dr. VEREEN. Well, they were telling us to wait till the end of the fiscal year. We did not want to wait till the end of the fiscal year.

Mr. BARR. Well you have.

Dr. VEREEN. We are just as frustrated.

Mr. BARR. The gentleman from Maryland.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. I have just some things I need to clear up. First of all, let me say I was very intrigued with your line of questioning, and I want everybody in this room to understand that we are dealing with some very, very serious allegations. The chairman is a former U.S. Attorney, I am a defense attorney of 20 years, and I can tell you we are dealing with some serious stuff. That is why I am going to ask the following questions.

Mr. Pleffner, let me ask you, I am glad you cleared up exactly what information was imparted when. I have read your memo and I applaud you for bringing this to the attention of the appropriate authorities. Let us go back to when you first brought it up. Your immediate supervisor, would that have been Mr. Levitt back there in late September, October?

Mr. PLEFFNER. That is correct.

Mr. CUMMINGS. All right. First of all, what is considered an irregularity? When you say irregularity, what do you mean?

Mr. PLEFFNER. Irregularity, question cost, unsupported costs.

Mr. CUMMINGS. OK. Do you oversee more than this contract, or is this the only one that you have been handling in the last 2 years?

Mr. PLEFFNER. I oversee roughly a half dozen media campaign contracts and MOUs.

Mr. CUMMINGS. OK. I take it is a part of your job to make sure that Government money is being spent consistently with the contract, and I take it your job is to raise the red flag if you see something that seems a bit out of kilter. Is that correct?

Mr. PLEFFNER. Yes, it is.

Mr. CUMMINGS. Is it unusual for irregularities to come up in other contracts?

Mr. PLEFFNER. No, it is not unusual.

Mr. CUMMINGS. And did you bring that to the attention of Mr. Levitt, those other ones?

Mr. PLEFFNER. Yes, I did.

Mr. CUMMINGS. And what would his normal response be, and that may be a question stated poorly because there may not be a normal response, but you bring it to his attention for what purpose?

Mr. PLEFFNER. To keep him informed on a day-to-day basis of the financial activities.

Mr. CUMMINGS. And do you have authority to take certain actions? In other words, do you go to him and say, look, Mr. Levitt, I see these irregularities and I am telling you I have got a problem with it, and what I am going to do is I am not going to pay this. Is that the way it usually goes?

Mr. PLEFFNER. As a matter of fact, as project officer my determination or my recommendation to HHS is made independently. Mr. Levitt does not influence my recommendation or decision.

Mr. CUMMINGS. OK. So you are just keeping him informed, is that right?

Mr. PLEFFNER. Correct.

Mr. CUMMINGS. OK. Now when you presented this information to Mr. Levitt, were you expecting him to do anything in particular? First of all, I am not trying to lead you down some rosy path with a bomb at the end. My concern is we have got several issues going here. We have got a question of whether Ogilvy committed some kind of fraud. This is the question I am concerned about here, a question about whether your agency did what it was supposed to do and whether what they did was reasonable. We have heard Mr. Hast say that in his conclusion he felt that—correct me if I am wrong, Mr. Hast—that the response was inappropriate, it could have been done a better way. Is that the response to all of this?

Mr. HAST. Yes. Basically, if they believed there was fraud, the FBI or the HHS IG would have looked into that for free.

Mr. CUMMINGS. OK. Now I want to come back just to make sure we are clear. So, when you presented this to Mr. Levitt, did you have an expectation that he would then do something with the information? Now I am going all the way back now to September and October. Or was that just informing him, is that correct?

Mr. PLEFFNER. That was just informing him.

Mr. CUMMINGS. OK. Now let's move on up. Between the April 13 memo and the September/October communication about irregularities, were there other communications where you found irregularities with regard to this contract and brought them to Mr. Levitt's attention?

Mr. PLEFFNER. Let me first clarify that the irregularities started in October 1999. The April memo is 2000.

Mr. CUMMINGS. Right.

Mr. PLEFFNER. Yes, there are continuing irregularities with the Ogilvy invoices.

Mr. CUMMINGS. And I take it that during this period between September 1999 and April 2000 you are constantly having conversations with Ogilvy. Is that correct?

Mr. PLEFFNER. Yes.

Mr. CUMMINGS. Saying why are you doing this? What is the problem here? Could you get any satisfaction when you got your answers? Were you getting any satisfaction?

Mr. PLEFFNER. No, I did not. I must also add though that the HHS contracting officer was also in these discussions and we did not receive satisfaction from them either.

Mr. CUMMINGS. Now Mr. Levitt said that HHS disagreed with some of your findings. Is that correct?

Mr. PLEFFNER. That is correct.

Mr. CUMMINGS. Would you say 10 percent, 20 percent of the findings they disagreed with?

Mr. PLEFFNER. I would say as a rule the vast majority, probably 85–90 percent they disagreed with.

Mr. CUMMINGS. HHS disagreed with 85–90 percent of your—

Mr. PLEFFNER. I stand corrected. That was on labor, the withholds that I recommended on labor, the HHS contracting officer disagreed with my recommendations, the rationale for my withholding.

Mr. CUMMINGS. You are kind of a strict guy, huh?

Mr. PLEFFNER. To all of them, not just Ogilvy.

Mr. CUMMINGS. Now coming on up to April and late March. I think you said the first time you started thinking fraud and communicating fraud to Mr. Levitt was in late March or early April. Is that correct?

Mr. PLEFFNER. It was late March.

Mr. CUMMINGS. OK. What did you expect him to do when you started mentioning fraud? I am just curious. It is one thing for GAO to come to their conclusions, they are not in the agency. You are and you were the one to bring this to their attention.

Mr. PLEFFNER. When I brought it to his attention I guess I expected him, I know I expected him to support me in elevating my concerns to senior management.

Mr. CUMMINGS. And you are saying that he did not do that?

Mr. PLEFFNER. He certainly did do that.

Mr. CUMMINGS. OK. So at that point, he was doing what you expected him to do. And I noted that there was a letter of 3 weeks after this. What was the first official response that you saw to your memo of April 13?

Mr. PLEFFNER. Saw from?

Mr. CUMMINGS. From anybody. In other words, you wrote the memo and you expected a response from somebody. Is that right? You expected them to take some type of action. I am saying be it written or be it verbal, what was the first official response that you had to that memo?

Mr. PLEFFNER. I received a copy of my memo back from the Director with his comments roughly 2, 2½ weeks after I sent it up to him.

Mr. CUMMINGS. And what were your feelings about those comments? That is the document that is on the board there, correct?

Mr. PLEFFNER. Correct.

Mr. CUMMINGS. What was your reaction to his comments? And did you discuss them with him, by the way?

Mr. PLEFFNER. There was a meeting as I recall in late April where there was a brief discussion. He did support the need for an external audit. And he did say, as noted on the sidebar there, that we would not wait 5 years for the audit.

Mr. CUMMINGS. Now did he say when the audit would take place when you two met?

Mr. PLEFFNER. I do not believe the timing was addressed in that meeting.

Mr. CUMMINGS. Did you make any recommendations as to when it should start?

Mr. PLEFFNER. I do not believe I had the opportunity to address when it should start.

Dr. VEREEN. Congressman, there was a process to change the contract and do an audit when the contract changed that was already in place. The last line of the memo refers to an immediate audit upon termination of the contract.

Mr. CUMMINGS. Does that sound reasonable, what he just said?

Mr. PLEFFNER. Yes, it does.

Mr. CUMMINGS. That is your memo, right?

Mr. PLEFFNER. Yes, it is.

Mr. LEVITT. Can I just add something. You cannot terminate a contract automatically. You have to have HHS' permission, you have to have another agency to go to. So it takes some time to do that. We had pretty much decided on the Navy, but then there were a couple of other agencies that came up that we had to investigate.

Mr. CUMMINGS. Mr. Pleffner, I do not have much more but I have got to ask you this. We have heard a lot of testimony here today. I have two questions. One, Mr. Vereen said a moment ago that he feels that, as far as the people's money is concerned, whatever you all have done so far to kind of freeze—you are stopping payment on certain things and you are questioning certain things—all the things that he talked about that you have done while waiting to get this audit, do you feel comfortable that your agency is doing what it needs to do so that if there were some type of fraud going on at least it would be frozen? Are you following my question? Is there anything else that you all could be doing now?

Mr. PLEFFNER. I think we have done what we are supposed to do. We are in the process of moving the contracts out of HHS over to the Navy, at which time an audit will be immediately initiated.

Mr. CUMMINGS. So do you feel comfortable with what has happened since the April 13 memo with regard to you all making sure that you carry out the full extent of what your job is?

Mr. PLEFFNER. I am comfortable beyond a shadow of a doubt that I have done what is necessary to protect ONDCP's, the Government's, the taxpayer's interest. We have withheld since April 13 an additional \$8 million. On that date, we had only withheld \$5 million. We are now up to \$13.4 million. We have done what we could, if there is any impropriety, we have done what we could to keep it in check.

Mr. CUMMINGS. And I applaud you for that. And I do not want you to misunderstand and think this is any kind of negative toward

you. I applaud what you have done. I guess the question is, do you feel like you have gotten the cooperation from your superiors in accomplishing what you just stated?

Mr. PLEFFNER. Absolutely. They have supported every withhold I have recommended.

Mr. CUMMINGS. I do not have anything else.

Mr. BARR. As an example of the basis, Mr. Pleffner, on which you have recommended the withholding of funds—and this is why I am a little bit surprised, maybe I should not be a little bit surprised, that HHS disagrees with you—I refer to your memo to Michelle Trotter of March 2, 2000. You say that your recommendation to withhold close to \$500,000 at that particular time was based on: “(1) various employees billed without providing time sheets to support time worked against ONDCP; (2) various salaries charged without documentation to support the costs incurred; (3) various salaries exceed the salaries proposed by the contractor.”

The basis on which you were recommending that funds be withheld were not some theoretical, never heard of, ingenious, imaginative argument. These are just pretty much standard reasons for withholding funds that anybody should agree with. Correct?

Mr. PLEFFNER. Correct.

Mr. BARR. During these past 7 months, Ogilvy has continued to bill ONDCP and has continued to receive funds. Is that correct?

Mr. PLEFFNER. That is correct.

Mr. BARR. I would like to thank all of the witnesses for being here today.

Mr. CUMMINGS. Mr. Chairman, I have two more questions.

Mr. BARR. The gentleman is recognized for 1 minute.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. I may need just a little bit longer than that.

Mr. BARR. The gentleman is recognized for 2 minutes.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. I really appreciate this 2 minutes.

Mr. BARR. The record will reflect that the gentleman just a moment ago said that he had no more questions.

Mr. CUMMINGS. Well, you just asked questions, Mr. Chairman, that caused me to have more questions.

Mr. BARR. The gentleman is recognized for 2 minutes.

Mr. CUMMINGS. Mr. Hast, there is something that has been bothering me and it is part of your findings. When you talked about General McCaffrey and whether he remembered the audit or not, because I am always concerned about people’s reputations, I take it he did not remember at first this memo and notation, is that correct, and you then presented it to him. Did he readily say, oh, yes, this is my writing? I mean, there was not any—

Mr. HAST. No, there was not.

Mr. CUMMINGS. Did you feel comfortable that he had forgotten, with your skill and your judgment?

Mr. HAST. Yes.

Mr. CUMMINGS. OK. Thank you.

Mr. LEVITT. Congressman, I know blue folders and I know General McCaffrey, he probably reads 100 documents a night. He is a workaholic. He probably only sleeps a few hours. It is very common

for him to forget something like that. And that is why we have the notations.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. I really appreciate that.

Mr. BARR. I would like to thank the witnesses for appearing today.

The record will remain open for 2 weeks for any additional material you all wish to submit for the record.

There being no further business before this subcommittee, this subcommittee is hereby adjourned.

[Whereupon, at 1:54 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

[The prepared statement of Hon. Elijah E. Cummings and additional information submitted for the hearint record follows:]

Statement Congressman Elijah E. Cummings
ONDCP National Youth Anti-Drug Media Campaign
October 4, 2000

1 Mr. Chairman:

2 I'd first like to thank the Office of National Drug Control Policy (ONDCP) for
3 their strong leadership and cooperation with Congress in fighting the war
4 against drugs. I believe it is important to note that ONDCP Director, General
5 Barry McCaffrey, personally sat down with youth in Baltimore for a half-day
6 town hall meeting to hear how the drug war and the media campaign have
7 impacted their lives. This demonstrates his personal commitment. I greatly
8 appreciate all that he and ONDCP have done and believe our collaborations have
9 helped him in his work as much as they have helped me in mine. Dr. Vereen,
10 ONDCP deputy director, and I have also worked together in recent weeks and I
11 thank him for his assistance as well.

12

13 Now, to the issue at hand. It is unfortunate that despite its good work, ONDCP
14 has to again be placed in a defensive position as a result of unsubstantiated
15 allegations. Since the inception of the National Youth Anti-Drug Media
16 Campaign in 1998, this Subcommittee has closely monitored the campaign to
17 determine its efficiency and effectiveness.

1 According to a recent GAO report “ONDCP has met most mandates . . .”
2 regarding the media campaign funds and program guidelines. In July of this
3 year, GAO – the revered investigative authority – found that survey data on drug
4 abuse, focus groups and community input supported the notion that ONDCP’s
5 anti-drug media campaign has met its congressional mandates. According to
6 numerous studies released this year, the campaign has had **real** results in meeting
7 campaign goals to reduce drug use among its target populations.

8

9 ▶ According to the most recent Monitoring the Future Survey, as anti-drug
10 ads have risen, so have attitudes about the social disapproval and perceived
11 risks of illegal drug use.

12

13 ▶ The 1999 National Household Survey on Drug Abuse reported that drug
14 use by 12-17 year olds dropped by 21% over a two-year period (1997-99).

15

16 ▶ Additionally, the PRIDE (Parent’s Resource Institute for Drug Education)
17 Survey reported that, between 1996 and 1999, annual use of any illicit drug
18 declined by a third among junior high students.

19

20

21

22

1 Over the years, we have held numerous hearings to “investigate allegations.” I’ve
2 noticed that this subcommittee in some ways resembles our Full Committee --
3 one that has continually sought to find wrongdoing in this Administration.
4 Sadly, allegations have not only been levied against ONDCP, but also one of the
5 top public relations firms in the nation, Ogilvy & Mather -- an important partner
6 in the media campaign.

7

8 These allegations may be “sensational,” but they do not assist in combating the
9 drug war and further, have potential to strain a successful partnership between
10 Ogilvy & Mather and our Office of National Drug Control Policy that will
11 eventually affect our nation’s youth.

12

13 The allegations raised today question whether Ogilvy & Mather over-billed for
14 labor or falsified records, and whether ONDCP and HHS contract management
15 did not adequately follow-up once alerted to the concerns.

16

17 I have worked closely with General McCaffrey and his staff on numerous issues.
18 I know that he is running a tight ship because he is very concerned about the
19 effectiveness and cost-efficiency of ALL the dollars given to ONDCP by
20 Congress. As such, I believe that ONDCP should be afforded the opportunity to
21 find solutions and answers when questions arise, BEFORE our Subcommittee
22 jumps in to investigate and point fingers.

23

1 I would like to outline a timeline that highlights when the irregularities at
2 question were raised and how ONDCP addressed them.

3

4 An April 13, 2000 memo from Richard Pleffner, ONDCP Project Contracting
5 Officer, to General McCaffrey stated concerns regarding Ogilvy's management
6 practices and possible billing irregularities. These uncertainties were reinforced
7 when a former Ogilvy employee raised those concerns.

8

9 On May 4, 2000, ONDCP sent a letter to Ogilvy expressing concern about labor
10 costs in their Year 2000 Project Plan and asked that Ogilvy reassess the plan to mak
11 the costs in line with the original proposal.

12

13 ONDCP then went on to hire an independent media consultant, Jane Twyone. He
14 findings concluded that there were cost-savings that Ogilvy could have made based
15 on industry traditions and standards.

16

17 Subsequently, ONDCP withheld approximately \$14 million in payments to Ogilvy

18

19 Although Ogilvy provided several reasons for their costs in a June 2000 letter,
20 ONDCP asked Ogilvy to break down its costs more thoroughly to assist in
21 determining what were reasonable expenses.

22

23

1 Since that time, General McCaffrey approved a recommendation by ONDCP's
2 Office of Legal Counsel for ONDCP to conduct an internal audit of the
3 management practices of the media campaign to identify areas that need
4 improvement. My understanding is that General McCaffrey also approved a
5 recommendation that HHS conduct an audit of all media campaign contractors.

6

7 All this to say.

8

9 WHAT IS THE PROBLEM?????

10

11 I will review.

12

13 ▶ ONDCP was alerted to a potential problem,

14

15 ▶ ONDCP took necessary steps to investigate the issue, and

16

17 ▶ ONDCP took steps to address the problem.

18

19 As such, I believe that instead of attacking and launching new investigations,

20 ONDCP should be commended for taking action.

21

22 Mr. Chairman, I look forward to hearing from today's witnesses so that we may

23 clear up this issue and get back to the business of saving our nation's youth.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Program Support Center

Rockville MD 20857

OCT 31 2000

The Honorable John Mica
Chairman
Subcommittee on Criminal Justice, Drug Policy and Human Resources
Committee on Government Reform
E-377 Rayburn Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This is in response to your letter of October 16. Enclosed are the responses to the follow-up questions about our contract procedures and involvement with the Office of National Drug Control Policy's media campaign.

Should you need additional information, please ask your staff to contact Mrs. Christie Goodman on 301-443-6557.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Curtis L. Coy".

Curtis L. Coy
Director

Enclosure

Received PSC100 10/18/00

DAN BURTON, INDIANA
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 ILEANA ROSS-LEHTINEN, FLORIDA
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 JOHN L. MICA, FLORIDA
 THOMAS M. DAVIS, VIRGINIA
 DAVID M. MICHELOTTI, INDIANA
 MARK E. SOUDER, INDIANA
 JOE SCARBROUGH, FLORIDA
 STEVEN C. LA TOURTE, OHIO
 MARSHALL "MARK" SANTORO, SOUTH CAROLINA
 BOB BARR, GEORGIA
 DAN VILLES, FLORIDA
 ASA HUTCHINSON, ARIZONA
 LEE TERRY, WISCONSIN
 JUDY RIGBERT, ILLINOIS
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 JOHN T. DOOLITTLE, CALIFORNIA
 MELVIN CHENOWETH, IOWA

ONE HUNDRED SIXTH CONGRESS
Congress of the United States
House of Representatives

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BERNARD SANDERS, VERMONT
 INDEPENDENT

October 16, 2000

Mr. Curtis Coy
 Director, Program Support Center
 Dept. of Health and Human Services
 5600 Fischers Lane, Rm. 17-21
 Rockville, MD 20857

FAX: 301-443-0358

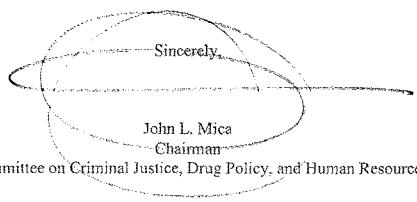
Dear Mr. Coy:

On behalf of myself and Members of the House Subcommittee on Criminal Justice, Drug Policy and Human Resources, I would like to thank your contract officer and officials of your staff who briefed my Subcommittee staff prior to our October 5th hearing on "The National Youth Anti-Drug Media Campaign: Contract Administration and Accountability issues."

I have included a set of follow-up questions that I would like answered for the hearing record. Please provide the subcommittee with answers to the questions no later than Thursday, October 19, 2000. Please restate each question, and then supply your answer. The responses and supporting documentation can either be faxed to 202-225-1154, sent electronically to ryan.mckee@mail.house.gov, or mailed to:

Subcommittee on Criminal Justice, Drug Policy and Human Resources
 B-373 Rayburn House Office Building
 Washington, DC 20515

In your responses, please transmit requested and pertinent documents, along with answers to the attached questions.

Sincerely,

 John L. Mica
 Chairman
 Subcommittee on Criminal Justice, Drug Policy, and Human Resources

QUESTIONS

1. Please identify, and explain the duties of, the staff assigned to the ONDCP Ogiivy and Mather contact for the National Youth Anti-Drug Media Campaign.
2. Please explain in full the responsibilities of the assigned HHS personnel, and the responsibilities of the ONDCP contractor technical representative (COTR), Mr. Pleffner, and project manager, Mr. Levitt.
3. Please explain the practices by which the COTR identified issues that merited disallowing payments to the contractor (O&M). How did HHS officials react to these recommendations and issues identified by the ONDCP COTR? Did the HHS Contracting Officer (CO) or subordinate disagree with the ONDCP COTR's concerns and/or recommendations? How often? How were these issues resolved?
4. When did the HHS CO and assistant CO become aware of ONDCP's interest in obtaining an audit of the contract? Did HHS officials agree or disagree with the need for a timely audit? Explain fully. Why did HHS not undertake the audit? Was ONDCP's willingness or reluctance to fund such an audit a factor? Explain fully.
5. Explain HHS's policies and practices for undertaking audits. Provide relevant regulations and/or guidance. Are audits normally undertaken only at the end of a multi-year or five-year contract? What types of audits are conducted at the end of a multi-year contract (e.g., closeout audits)? How do they differ from financial audits involving issues of potential or alleged overbilling? Explain.
6. How much review was accorded the ONDCP O&M contract by HHS assistant CO and other reviewing officials? Compare to similar and other types of contracts. Did HHS feel that it was devoting inordinate amount of time or resources to this contract? What was the workload of the assigned HHS official? Did the assigned assistant CO have almost 60 contracts to review? Explain.
7. Was HHS comfortable that adequate arrangements and safeguards were in place to determine "reasonable costs" with this contract? Explain. Identify the person best qualified to determine "reasonableness" of costs associated with this contract and why.
8. Identify and explain major problems encountered by HHS in administering this contract, and what additional actions/ resources were needed to ensure that it was administered effectively and efficiently.
9. What recommendations would HHS make regarding the administration of this contract in the future, for itself or another federal agency?
10. Did HHS have any concerns that the contractor's responsibilities and tasks under the contract changed significantly from the original final and best offer? What impacts and concerns arose as a result of such changes? Was this a problem that could or should have been prevented?

PROGRAM SUPPORT CENTER (PSC)
DEPARTMENT OF HEALTH AND HUMAN SERVICES
RESPONSES TO FOLLOW-UP QUESTIONS OF THE SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG
POLICY AND HUMAN RESOURCES LETTER DATED OCTOBER 16, 2000

1. *Please identify, and explain the duties of, the staff assigned to the ONDCP Ogilvy and Mather contract for the National Youth Anti-Drug Media Campaign.*

The Program Support Center (PSC) is an operating Division within the Department of Health and Human Services (HHS). The PSC was created as a business enterprise to provide support services to all Federal agencies on a competitive fee-for-service basis. There are two individuals assigned to the Ogilvy and Mather contract. Ms. Janet Miller serves as the Contracting Officer and is an employee of the PSC, HHS. She is certified as a Level IV, Acquisition Manager, which is the highest level of Departmental Certification. She has 19 years of contracting experience and has unlimited contracting officer authority. She is a Supervisory Contract Specialist who supervises contract specialists ranging in grade from GS-11 to GS-13. Ms. Miller oversees the actions of the contract specialists from the time procurement requests are received until the contracts are terminated or closed out. The types of contract actions range from simplified acquisitions to complex contracts.

Ms. Michele Trotter is the Contract Specialist and is also an employee of the PSC, HHS. She is certified as a Level III Senior Acquisition Official with 11 years of contracting experience and has authority to sign contract actions up to \$10,000,000. She is assigned both cost reimbursement and fixed price type contracts. She is responsible for the day-to-day administration of assigned contracts. Ms. Trotter works on contracts from the time the request for contract (RFC) is assigned until the contract is closed out. This includes establishing the acquisition plans and reviewing draft RFCs to ensure that the RFC is complete. In addition, she prepares solicitation documents, conducts preproposal conferences with prospective offerors, and attends technical evaluation meetings to ensure that all offerors are evaluated in accordance with solicitation provisions. She prepares responses to protests, claims or other appeals. Once contracts are awarded, she assists in any administration problems which may arise. In addition, she reviews vouchers, prepares all contract modifications, and prepares all closeout documentation. She provides guidance

to other contract specialists on all aspects of the acquisition process and serves as the acting supervisor when required.

2. *Please explain in full the responsibilities of the assigned HHS personnel, and the responsibilities of the ONDCP contractor technical representative (COTR), Mr. Pleffner, and project manager, Mr. Levitt.*

The HHS Contracting Officer is responsible for assuring compliance with all terms of the contract.

The HHS Contract Specialist is responsible for the day-to-day administration of this contract. She brings all concerns to the attention of the Contracting Officer.

Mr. Richard Pleffner, the COTR, functions as the technical representative of the Contracting Officer and is responsible for matters of a technical nature, including approving technical data required by the contract and maintaining the official technical file. The COTR is responsible for relaying any information to the Contracting Officer that may affect contractual commitments and requirements.

Mr. Alan Levitt is the Director of the Media Campaign and is the immediate supervisor of the COTR. Prior to contract award, Mr. Levitt served as the COTR. However, since he is no longer the COTR, PSC's involvement with him has been infrequent and most of our contact has been with Mr. Pleffner since the contract award on December 30, 1998.

3. *Please explain the practices by which the COTR identified issues that merited disallowing payments to the contractor (O&M). How did HHS officials react to these recommendations and issues identified by the ONDCP COTR? Did the HHS Contracting Officer (CO) or subordinate disagree with the ONDCP COTR's concerns and/or recommendations? How often? How were these issues resolved?*

As part of our standard operating procedures, the Contract Specialist sends the vouchers to the COTR along with a voucher approval form. The COTR annotates the amount recommended for payment and the amount to be withheld on the form and returns it to the Contract Specialist along with his rationale for the withholdings. The explanations received did not provide sufficient information for the contracting staff to support the reasons for the withholdings. Rather than withhold the entire invoice until

resolution of the proposed disallowed payments, the contracting officer paid the vouchers, minus the disputed amounts, enabling the contractor to maintain some cash flow. This is authorized in accordance with the HHS Acquisition Regulation 342.72, "Payments to Contractors." This process has continued for the processing of almost every voucher. Most of the disallowance issues have not yet been supported or resolved to the satisfaction of the Contracting Office.

4. *When did the HHS CO and assistant CO become aware of ONDCP's interest in obtaining an audit of the contract? Did HHS officials agree or disagree with the need for a timely audit? Explain fully. Why did HHS not undertake the audit? Was ONDCP's willingness or reluctance to fund such an audit a factor? Explain fully.*

In March of 2000, the COTR expressed to the Contract Specialist his desire to seek an audit. The Contract Specialist's understanding was that the COTR wanted to begin annual audits of each contract year of performance. The Contract Specialist explained that the normal procedure is for HHS to review or audit contracts as part of the closeout procedure at contract expiration. As a service-for-fee entity, the end of contract review or audit is included in the acquisition fees charged by the HHS contracting activity. Requests for audits that fall outside of normal procedures are considered. Should the Contracting Officer suspect misrepresentation, fraud, or serious improprieties during the course of any contract, an interim audit or other appropriate action would be considered and implemented if necessary. The COTR did not inform the Contracting Officer of any alleged improprieties that would have prompted an interim audit. The audit issue was not raised again by ONDCP until August 2000 when the contract transfer was being discussed. As transfer of the contracts was being discussed, HHS recommended that ONDCP, HHS, and the new contracting office meet to determine the best course of action to take and that whatever audit or review is recommended be done in coordination with the new contracting office so it is acceptable to their requirements.

5. *Explain HHS's policies and practices for undertaking audits. Provide relevant regulations and/or guidance. Are audits normally undertaken only at the end of a multi-year or five-year contract? What types of audits are conducted at the end of a multi-year contract (e.g., closeout audits)? How do they differ from financial audits involving issues of potential or alleged overbilling? Explain.*

Cost-incurred audits are typically performed at the end of a contract. However, HHS does not limit itself to such "contract closeout" audits. If an audit is warranted at any point during contract performance - - e.g., whenever the Contracting Officer suspects over billing, misrepresentation, fraud, or similar improprieties -- the Department (in close coordination with the Office of the Inspector General) ensures that the audit is conducted in a timely manner. Enclosed are our current and proposed acquisition regulations governing contract audits.

6. *How much review was accorded the ONDCP O&M contract by HHS assistant CO and other reviewing officials? Compare to similar and other types of contracts. Did HHS feel that it was devoting inordinate amount of time or resources to this contract? What was the workload of the assigned HHS official? Did the assigned assistant CO have almost 60 contracts to review? Explain.*

The HHS Program Support Center contracting activity awards and administers a wide variety of contract vehicles for the various agencies within HHS, as well as for other Federal agencies and the District of Columbia.

Due to attempts to resolve voucher issues and other related matters, it was necessary for the Contracting Officer, a Procurement Analyst, Cost Analyst, contract management officials, and HHS legal counsel to be involved on a regular basis. HHS devoted a significant amount of time and resources to this contract. The Contract Specialist's workload has varied during the time we have administered ONDCP contracts. At present, she is administering 61 active contracts, which includes ONDCP related work.

7. *Was HHS comfortable that adequate arrangements and safeguards were in place to determine "reasonable costs" with this contract? Explain. Identify the person best qualified to determine "reasonableness" of costs associated with this contract and why.*

HHS contract management personnel believe that adequate safeguards are in place to determine reasonableness of costs. The COTR continues to thoroughly review the vouchers to ensure that the costs billed relate to the services received. The COTR is the most qualified person to

determine the reasonableness of cost associated with this contract, due to his knowledge and detailed involvement with the media campaign.

8. *Identify and explain major problems encountered by HHS in administering this contract, and what additional actions/resources were needed to ensure that it was administered effectively and efficiently.*

Several issues relating to this contract have presented challenges for all parties involved:

- Contract performance reports which were due nine months after contract award and yearly thereafter in accordance with Section C of the contract have not been provided.
- Documentation for modification requests and site visits as well as copies of correspondence were not always provided.
- Approval was given to submit vouchers more frequently than allowed by the contract.

HHS believes that improved communication between the Contracting Officer and the COTR would help resolve these shortcomings and also improve other aspects of the administration of the contract. PSC personnel are working with ONDCP to achieve that goal.

9. *What recommendations would HHS make regarding the administration of this contract in the future, for itself or another federal agency.*

For successful contract administration, an ongoing partnership must exist between all parties involved.

FAR Subpart 1.102 states that "Participants in the acquisition process should work together as a team and should be empowered to make decisions within their area of responsibility." As part of an effort to comply with that directive, we would recommend monthly meetings among all parties to ensure that responsibilities are being carried out and that performance is acceptable and timely.

10. *Did HHS have any concerns that the contractor's responsibilities and tasks under the contract changed significantly from the original final and best offer? What impacts and concerns arose as a result of such changes? Was this a problem that could or should have been prevented?*

There have been three modifications to the Ogilvy and Mather contract; however, none of them changed the responsibilities and tasks outlined in the statement of work of the contract. Media buying increased, and this factor was incorporated into the contract by modification, as media buying could not be forecast at time of award.

considered appropriate. These contracts shall be closed with the condition that they are subject to adjustment should an on-site audit be conducted at a later date and should final payment be made. The release executed by the contractor shall contain the following:

The Contractor agrees, pursuant to the terms of this contract entitling Allowable Indirect Costs and Fixed Fee for CERP contracts, that the amount of any award shall not be reduced by any award of any other contract with the Government.

(3) The contracting officer may request a field audit of any contract when, in his/her judgment, the risk of non-performance with the contract warrants such an audit. The contractor shall exercise discretion in requesting such audits on creditable evidence such as unsatisfactory dealings with the contractor during the period of performance of other government officials. The contractor shall submit reports containing serious findings against the contractor, the known experience of other government officials in dealing with the contractor who are knowledgeable about the contractor's performance, and other circumstances, formal third party complaints or allegations which bear upon the contractor's integrity or the propriety of the contract, and other comparable allegations and other comparable allegations on the advice of a derogatory nature about the contractor made by responsible individuals which in the contracting officer's judgment are substantiated. Except where a contracting officer suspects misrepresentation or fraud audits should not be requested if the cost of performance is likely to exceed the value of the contract.

(4) When an audit is warranted prior to closing out a contract, the contracting officer should request the audit directly from the Department of Health, Education and Welfare, Office of Acquisition General, Office of Acquisition (HHSOA). The request should cite the reasons an audit is warranted. A copy of the audit report shall be furnished to the Director, Office of Acquisition and

Department of Health and Human Services

tion of final indirect cost rates in accordance with FAR 42.202.

(a) Contracting officers shall assure that indirect cost rates are established other than a field audit, have been actually completed prior to closing any physically completed contract. Cost-reimbursement type contracts will be submitted below before they may be closed.

(b) Contracting officers shall use the instructions in the October 5, 1982 version of the Department of Health and Human Services, Office of Acquisition and Logistics for Procurement Assistance and Logistics to closeout cost-reimbursement type contracts physically completed prior to fiscal year 1977 and contracts subsequent to that date for which field audit information is available.

Contracting officers shall closeout all contracts physically completed after September 30, 1977 in accordance with the following procedures:

1. All contracts in excess of \$500,000 awarded to commercial organizations and non-profit organizations, other than colleges and universities, hospitals and health care organizations, shall be closed for which an agency other than HHS has audit coverage. Field audits will also be conducted each year on applications for cost-reimbursement contracts which HHS has audit coverage. These contracts may be closed after receipt of the field audit report.

Contracts of any dollar value with non-proprietary colleges and health care organizations, hospitals and health care organizations and local units of government and contracts not in excess of \$500,000 with other institutions shall be closed on the basis of a desk audit. The desk audit should include (1) a confirmation from the project officer that material, travel, and other types of direct expenditures are in accordance with contract requirements; (2) a review of available audit reports to determine if any adjustments were made that may affect the contract's value; (3) a review and full discussion with the contracting government auditor when

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or other. Copies of unilateral contracts and modifications with carbon business signed signatures may be used but must be stamped "DUPLICATE ORIGINAL" (see 304.101).

Subpart 304.6—Contract Reporting

304.602 Federal Procurement Data System.

The Department-wide Contract Information System (DCIS) represents the Department's implementation of the Federal Acquisition Regulation (FAR) and activities are required to participate in the DCIS and follow the procedures stated in the Contract Information System Manual and amendments thereto. The contractor shall ensure that all required contract information is collected, submitted, and received into the DCIS on or before the 15th of each month. The contractor shall submit and contract modification awards of the prior month.

304.603 (Reserved)

Subpart 304.8—Contract Files

304.801 General. OPD/US shall prescribe the contents of contract files and establish filing procedures consistent with the nature of the contracting actions and in accordance with FAR 4801.406 and 4802. Contract files should contain an index of the contents to facilitate review and should be separated into logical categories (see FAR 4.903).

304.804 Closeout of contract files.

304.804-1 Closed by the offer administrator. Copies of contract files for contracts should be closed within 20 months of the month in which the contracting officer receives evidence of physical completion (see FAR 4.904-4). Other contracts should be closed by contract closeout costs for a specific contract, in advance of the determination

304.101

See Subpart 304.7—Acquisition Instruments' Identification Numbering System. 304.700 Scope of subpart. 304.701 Numbering contracts. 304.702 Numbering solicitations. 304.703 Numbering purchase and delivery orders. 304.704 Numbering basic agreements. 304.705 Numbering basic ordering agreements.

Subpart 304.7—Review and Approval of Proposed Contract Awards

304.7100 Scope of subpart. 304.7101 Contracts requiring review and approval. 304.7102 Content of the review. 304.7103 Approval.

Approved: 5 U.S.C. 301; 40 U.S.C. 406(c). Source: 49 FR 13695, Apr. 6, 1984, unless otherwise noted.

Subpart 304.1—Contract Execution

304.101 Contracting officer's signature. An original of each unilateral contract, or modification shall be executed by the contractor and contracting officer. The contracting officer shall sign the original when carbon paper is used in forms such as Standard Form 44 or Optional Form 347 or 348. A legible copy of the contract, including the contracting officer's signature shall carry the same force and effect as a pen and ink signature for unilateral contracts.

Subpart 304.2—Contract Distribution

304.201 Procedures. The signed original of bilateral contracts and modifications shall be placed in the contract file, and duplicate originals shall be furnished to the project officer, and other individuals or offices, as applicable. Purchase orders, delivery orders, and other contracts shall be distributed to the same individuals as bilateral contracts except the original shall be furnished to the contractor

304.7000

304.7000 Grants Management (DOAGM). In general cannot honor the request in a reasonable period of time, it will comply with DOAGM and the contracting officer's audit will be made on the basis of the value of the contract, the nature of the contracting officer's concerns, and the availability of funds for the contract. The Department will perform a review to satisfy the contracting officer's concerns.

(3) Closeout procedures are to be followed with the regular contracting procedures now followed in administering contracts. These procedures are not meant to be interpreted as inhibiting the contracting officer's authority to take any reviews on the part of the contracting officials not currently required by the FAR. See, for example, Public Voucher for Personnel and Services. Other than Personnel, will contain sufficient information to allow a contracting officer to satisfy the requirements of FAR 101-11.6, regarding these closeout procedures shall not be extraordinary oversight or review and shall be based on the information contained as the basis for requiring contractors to submit extraordinary documentation such as payroll listings, labor bills, travel details, etc.

(49 FR 13965, Apr. 9, 1984, as amended at 54 FR 1583, May 2, 1989; 58 FR 47092, Sept. 17, 1993)

Subpart 304.70—Acquisition Instrument Identification Numbering System

304.7000 Scope of subpart. This subpart prescribes policy and procedures for assigning identifying numbers to contracts and related instruments, including solicitation documents, purchase orders, and delivery orders.

(a) Contracts which require numbering. (1) The following contracts shall be numbered in accordance with the tracking system with the following exceptions:

- (1) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000.
- (2) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000, which are awarded to a contractor who is a small business concern as defined in 13 CFR 121.101.
- (3) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000, which are awarded to a contractor who is a minority-owned business enterprise as defined in 13 CFR 121.101.

(b) Contracts which require numbering. (1) The following contracts shall be numbered in accordance with the tracking system with the following exceptions:

- (1) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000.
- (2) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000, which are awarded to a contractor who is a small business concern as defined in 13 CFR 121.101.
- (3) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000, which are awarded to a contractor who is a minority-owned business enterprise as defined in 13 CFR 121.101.

(c) Contracts which require numbering. (1) The following contracts shall be numbered in accordance with the tracking system with the following exceptions:

- (1) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000.
- (2) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000, which are awarded to a contractor who is a small business concern as defined in 13 CFR 121.101.
- (3) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000, which are awarded to a contractor who is a minority-owned business enterprise as defined in 13 CFR 121.101.

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system prescribed in paragraph (b) of this section:

- (1) All contracts, including letter contracts and task orders under basic ordering agreements, which, in the course of performance, require the acquisition of personal property or nonpersonal services.
- (2) All contracts which involve the payment of \$2,000 or more for transportation, including renovation or alteration.
- (3) All contracts which involve more than one payment, regardless of amount.

(4) The number assigned to a letter contract shall be the same as the number assigned to the supporting definite contract.

(b) Numbering system. All contracts which require numbering shall be assigned a number consisting of the following:

- (1) The three digit code assigned to the contracting office by the Office of Financial Operations, Office of Personnel Management, Office of Contract Management, and Office of Contract Administration.
- (2) A four digit fiscal year designation.
- (3) A four digit serial number. While it is required that a different series of four digit serial numbers be used for each fiscal year, the same numbers assigned need not be sequential.

(c) Illustration of contract numbers. The initial contract executed by the Division of Contract Operations, Office of Contract Management, in 1988 should be numbered 100-82-0001. Alternatively, if it is desirable for internal identification purposes to establish a different series of contract numbers, bid and negotiated contracts, this procedure is permissible. In this instance, the initial sealed bid contract might be numbered 100-82-0001 and the first negotiated contract numbered 100-82-0002.

(d) Assignment of identification codes. Each contracting office of the Department shall be assigned a code by the Office of Financial Operations. Requests for the assignment of such codes for newly established contracting offices shall be processed by the Office of Contract Management, Office of Contract Administration, and the contracting activity to the Director.

304.7100

Office of Financial Operations. Contracting office is to be established, the Director shall be notified. A list of the tracking office identification codes currently in use is contained in the Department-wide Contract Information System Manual (DWCIS).

(1) The following contracts shall be numbered in accordance with the tracking system with the following exceptions:

- (1) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000.
- (2) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000, which are awarded to a contractor who is a small business concern as defined in 13 CFR 121.101.
- (3) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000, which are awarded to a contractor who is a minority-owned business enterprise as defined in 13 CFR 121.101.

(2) The following contracts shall be numbered in accordance with the tracking system with the following exceptions:

- (1) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000.
- (2) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000, which are awarded to a contractor who is a small business concern as defined in 13 CFR 121.101.
- (3) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000, which are awarded to a contractor who is a minority-owned business enterprise as defined in 13 CFR 121.101.

(3) The following contracts shall be numbered in accordance with the tracking system with the following exceptions:

- (1) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000.
- (2) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000, which are awarded to a contractor who is a small business concern as defined in 13 CFR 121.101.
- (3) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000, which are awarded to a contractor who is a minority-owned business enterprise as defined in 13 CFR 121.101.

304.7200

304.7200 Numbering contracts. (a) Contracts which require numbering. (1) The following contracts shall be numbered in accordance with the tracking system with the following exceptions:

- (1) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000.
- (2) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000, which are awarded to a contractor who is a small business concern as defined in 13 CFR 121.101.
- (3) Contracts for the purchase of supplies, materials, or services, the value of which does not exceed \$50,000, which are awarded to a contractor who is a minority-owned business enterprise as defined in 13 CFR 121.101.

304.7300

304.7300 Review of proposed contract awards. (a) Reviewing officials. Officials assigned responsibility for review and approval of contract actions must be qualified in the field of acquisition and contract management. The review process shall be as follows:

- (1) Reviewing officials shall review and approve or disapprove contract actions in accordance with the following:

- (i) Reviewing officials shall review and approve or disapprove contract actions in accordance with the following:

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304.7400

304.7400 Review of proposed contract awards. (a) Reviewing officials. Officials assigned responsibility for review and approval of contract actions must be qualified in the field of acquisition and contract management. The review process shall be as follows:

- (1) Reviewing officials shall review and approve or disapprove contract actions in accordance with the following:

- (i) Reviewing officials shall review and approve or disapprove contract actions in accordance with the following:

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all required contract information is collected, submitted, and received into the DCIS on or before the 15th of each month for all appropriate contract and contract modifications award of the prior month.

Subpart 304.8 - Government Contract Files

304.804-70 Contract closeout audits.

(a) Contracting officers shall rely, to the maximum extent possible, on non-Federal single audits to close physically completed cost-reimbursement contracts with colleges and universities, hospitals, non-profit firms, and State and local governments. In addition, where appropriate, a sample of these contractors may be selected for audit, in accordance with the decision-making process set forth in the following paragraph (b).

(b) Contracting officers shall request contract closeout audits on physically completed, cost-reimbursement, for-profit contracts in accordance with the following:

(1) Decisions on: the need for and allocation of contract audit resources and services; the selection of contracts or contractors to be audited; the identification of the audit agency to perform the audit; and the type or scope of closeout audit to be conducted, shall be made by the Office of Inspector General (OIG) and Office of Grants and Acquisition Management, in consultation with the Department's Contract Audit Users Work Group. These decisions shall be based upon the needs of the customer, risk analysis, return on investment, and the availability of audit resources. When an audit is warranted prior to closing a contract, the contracting officer shall submit the audit request to the OIG's Office of Audit via the appropriate OPDIV representative on the Contract Audit Users Work Group.

(2) Except where a contracting officer suspects misrepresentation or fraud, contract closeout field audits shall not be requested if the cost of performance is likely to exceed the

potential cost recovery. Contracts that are not selected for a field audit may be closed on the basis of a desk review, subject to any later on-site audit findings. The release executed by the contractor shall contain the following statement:

The Contractor agrees, pursuant to the clause in this contract entitled "Allowable Cost" or "Allowable Cost and Fixed Fee" (as appropriate), that the amount of any sustained audit exceptions resulting from any audit made after final payment shall be refunded to the Government."

Subpart 304.70 - Acquisition Instrument Identification Numbering System

304.7000 Scope of subpart.

This subpart prescribes policy and procedures for assigning identifying numbers to contracts and related instruments, including solicitation documents, purchase orders, and delivery orders. The HCA (not delegable) is responsible for establishing the numbering system within the OPDIV.

304.7001 Numbering acquisitions.

(a) Acquisitions which require numbering. The following acquisitions shall be numbered in accordance with the system prescribed in paragraphs (b) and (c) of this section:

- (1) Contracts, including letter contracts and task orders under basic ordering agreements, which involve the payment of \$2,500 or more for the acquisition of personal property or nonpersonal services. (The number assigned to a letter contract shall be assigned to the superseding definitized contract).
- (2) Contracts which involve the payment of \$2,000 or more for construction (including renovation or alteration).
- (3) Contracts which involve more than one payment regardless of amount.
- (4) Requests for proposals and invitations for bids.



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

20 October 2000

The Honorable John L. Mica
Chairman,
Subcommittee on Criminal Justice,
Drug Policy and Human Resources
B-373 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Mica:

We provide this letter and the accompanying material in response to the Subcommittee's Questions for the Record to Dr. Donald R. Vereen, Alan Levitt, and Richard Pleffner. Please note that Steven Dillingham, Special Counsel to the Subcommittee, extended the deadline for our response from October 18 to October 20. Alan Levitt is at home this week caring for his wife who underwent cancer surgery. We appreciate your understanding of this special circumstance.

If there is any other assistance that we may provide to the Subcommittee or your staff in clarifying the issues discussed during the October 4 oversight hearing, please inform me at your convenience.

Respectfully,

A handwritten signature in black ink that reads "Michele A. Manatt". The signature is written in a cursive, flowing style.

Michele A. Manatt
Director of Legislative Affairs

QUESTIONS FOR THE RECORD TO DR. DONALD R. VEREEN
HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN RESOURCES
OCTOBER 4, 2000

1. WHEN DOES ONDCP NOW PLAN TO COMMENCE AN AUDIT OF THE CONTRACT WITH O&M?

ONDCP, HHS and the Navy agree that transfer of the contracts will occur with maximum cooperation from all parties, and that the audit will occur as soon as practicable following the transfer. The transfer will occur either in late October or early November 2000. We anticipate no obstacles to commencing an audit upon transfer since the audit is in the interest of all parties.

QUESTIONS FOR THE RECORD TO DR. DONALD R. VEREEN
HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN RESOURCES
OCTOBER 4, 2000

2. WHEN DOES ONDCP NOW PLAN TO TURN MANAGEMENT OF THE O&M CONTRACT OVER TO ANOTHER AGENCY (PRESUMABLY NAVY)?

ONDCP and the Navy are completing the finishing touches of the Memorandum of Agreement that will transfer contract administration functions to the Navy's FISC. On 11 October 2000, ONDCP Director McCaffrey met William Barker, the top-contracting official of the Navy's FISC to discuss completing the transfer. The transfer will occur in late October or early November 2000.

QUESTIONS FOR THE RECORD TO DR. DONALD R. VEREEN
HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN RESOURCES
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3. WHICH OF THE O&M CONTRACT COST REDUCTION PROPOSALS DOES ONDCP EXPECT TO IMPLEMENT?

ONDCP expects Ogilvy&Mather (Ogilvy) to institute all reasonable cost saving measures. Ogilvy states that many of its costs have resulted from tasks that could be performed by PDFA, and recommends transferring these tasks back to PDFA. ONDCP will continue to explore with PDFA its interest and ability to retake a larger role in the Anti-Drug Media Campaign, and will closely track whether such measures will result in a more efficient and effective campaign.

QUESTIONS FOR THE RECORD TO ALAN LEVITT
HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN
RESOURCES
OCTOBER 4, 2000

1. CONTRACT COSTS AND AUDIT ISSUES

- A. WHEN AND HOW DID YOU FIRST BECOME AWARE OF COST AND BILLING CONCERNS WITH THE CONTRACTOR (O&M). WHEN DID YOU LEARN THE DETAILS OF THE EXTERNAL ANALYSIS OF COSTS BY THE OUTSIDE CONTRACTOR?

Mr. Pleffner informed me of billing issues in May of 1999 when Ogilvy submitted its first bill. Ogilvy billing issues (withholds) generally fall into three categories 1) labor costs and compensation, 2) federal documentation requirements for media purchases, and 3) eligible costs and procedures related to the ad agencies supporting the Partnership for a Drug Free America that incurred production expenses for ads.

I learned of Jane Twyon's final conclusions when she submitted her report on April 4, 2000.

- B. DID YOU REVIEW THE MEMORANDUM DATED APRIL 13, 2000 FROM YOUR CONTRACT OFFICER TECHNICAL REPRESENTATIVE (MR. PLEFFNER) TO THE OPNDPC DIRECTOR PRIOR TO THE DIRECTOR RECEIVING IT? DID YOU AGREE/DISAGREE WITH THE WRITTEN CONCERNS REGARDING COSTS? EXPLAIN?

I read Mr. Pleffner's memorandum in draft form, but did not approve or disapprove it. I received a courtesy copy of the final version. I am not unduly concerned about the billing issues because I believe ONDCP is making appropriate progress on resolving each of the different concerns stated in the memorandum. Mr. Pleffner withholds payment on questioned costs; the billing dispute does not affect the effectiveness of the campaign; ONDCP is transferring administration of the contract; and, an audit will be conducted upon transfer of contract administration which will shed light on and help resolve the billing questions.

QUESTIONS FOR THE RECORD TO ALAN LEVITT
HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN
RESOURCES
OCTOBER 4, 2000

1. CONTRACT COSTS AND AUDIT ISSUES

- C. WHEN YOU BECAME AWARE THE ONDCP DIRECTOR NOTED HIS AGREEMENT TO AN EXTERNAL AUDIT ON THE APRIL 13 MEMORANDUM FROM MR. PLEFFNER, DID YOU THINK THAT FURTHER ACTION WAS NEEDED TO PROCURE AN AUDIT? WHY OR WHY NOT? WHY WAS THERE A SUBSEQUENT DELAY?

Yes, further action is needed. There is a need to transfer administration of the contract to another agency. We anticipate that the transfer will occur in late October or early November 2000.

There has been no delay in the transfer of contract administration. ONDCP discussed with other agencies the possibility of transferring contract administration, and ultimately selected Navy because it best understands our varied needs and is willing to accommodate them. ONDCP also had to reach agreement with HHS so that the transfer would occur with minimal disruptions.

- D. WHEN YOU BECAME AWARE THAT THE ONDCP CONTRACTING OFFICER (MR. PLEFFNER) REQUESTED THAT HHS CONTRACTING OFFICERS PERFORM AN AUDIT OF THE CONTRACT, DID YOU AGREE OR DISAGREE WITH THAT REQUEST? WHY WASN'T THE HHS AUDIT DONE? WAS ONDCP WILLING TO PAY FOR THE AUDIT? WHAT PLANS DOES ONDCP HAVE FOR AN INDEPENDENT AUDIT? WHEN? EXPLAIN?

I agree with Mr. Pleffner's request for an audit. But it is HHS policy not to do an audit until the end of a contract, which would mean that ONDCP must spend nearly \$800 million before an audit will be conducted. ONDCP will not delay performing an audit, and this is one of the reasons ONDCP will transfer the contract administration to another agency. ONDCP paid HHS nearly \$1 million to administer Media Campaign contracts and does not want to expend additional funds for an audit particularly where the Navy agrees to perform an audit at the time of transfer. ONDCP will transfer the Ogilvy contract to Navy in late October or early November, and an audit will be performed at that time.

QUESTIONS FOR THE RECORD TO ALAN LEVITT
HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN
RESOURCES
OCTOBER 4, 2000

1. CONTRACT COSTS AND AUDIT ISSUES
 - E. ACCORDING TO THE WASHINGTON POST (SEPTEMBER 30, 2000), YOU STATED "THERE IS ABSOLUTELY NO OVERBILLING." WHAT IS THE BASIS FOR YOUR PREJUDGMENT, IN LIGHT OF CONCERNS EXPRESSED BY YOUR CONTRACT OFFICER AND THE DIRECTOR'S COMMENTS? DO YOU SUPPORT AN AUDIT AS SOON AS POSSIBLE? HOW DO YOU ASSESS "REASONABLENESS OF MEDIA COSTS"? ARE YOU QUALIFIED TO? WHO IS? IDENTIFY

I have absolutely no evidence of any over billing in the fraudulent sense. Indeed, the GAO testified that their investigation uncovered no evidence of fraud. There is no prejudice in my statement. To the contrary, it would be prejudicial to allege fraud without evidence.

I support an audit as soon as practicable.

Mr. Pleffner, my staff and I assess the reasonableness of media costs. We are well qualified to undertake this task because of our own expertise and experience, our use of outside experts and industry data, and our knowledge of the unique nature and requirements of the National Youth Anti-Drug Media Campaign.

QUESTIONS FOR THE RECORD TO ALAN LEVITT
HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN
RESOURCES
OCTOBER 4, 2000

2. ALLEGATIONS RELATING TO BILLING PRACTICES

A. ALLEGATIONS OF POSSIBLE OVER BILLING OR INACCURATE BILLING. DID A PREVIOUS EMPLOYEE OF ONDCP EVER BRING TO YOUR ATTENTION THAT THE CONTRACTOR COULD BE OVER-BILLING OR INACCURATELY BILLING THE ONDCP CONTRACT? WAS HE AN ACQUAINTANCE OF YOURS? HOW DID YOU LEARN ABOUT HIS ALLEGATIONS OF POSSIBLY ALTERED TIMESHEETS? DID THE PERSON EVER TELL YOU THAT HE BROUGHT THESE CONCERNS OF POSSIBLE OVER BILLING TO THE ATTENTION OF CONTRACTOR MANAGEMENT? EXPLAIN?

No previous employee of *ONDCP* ever brought to my attention that Ogilvy might be over-billing.

A terminated employee of *Ogilvy* did express concerns. He said that although he was not privy to any financial or contractual discussions, he thought something was unusual about *Ogilvy* labor costs. He did not tell me anything about altered timesheets, nor did he state that he brought his concerns to *Ogilvy* management. Mr. Pleffner reported that this individual made similar allegations to him.

B. RESPONSE TO ALLEGATIONS. WHAT DID YOU DO WHEN YOU LEARNED OF THESE ALLEGATIONS? AFTER NOTIFYING YOUR AGENCY (ONDCP) LEGAL COUNSEL, WHAT DID THEY DO TO YOUR KNOWLEDGE. WHAT DID YOU BELIEVE THE DIRECTOR MEANT BY THE WORDS "WE NEED AN EXTERNAL AUDIT" AND THE WORD "YES" CIRCLED AROUND THE WORDS "IMMEDIATE AUDIT" ON THE APRIL 13, 2000 MEMORANDUM?

I learned of these allegations from my Project Officer (Mr. Pleffner) and suggested he contact our General Counsel, which he did. Our General Counsel advised him to prepare a memo informing the Director. I interpreted the Director's comments to mean that we should move forward in a final decision paper for the transfer of the *ONDCP* contracts from *HHS* to another agency, which would include an immediate an audit at the time of transfer.

QUESTIONS FOR THE RECORD TO ALAN LEVITT
HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN
RESOURCES
OCTOBER 4, 2000

3. MEMORANDUM TO THE ONDCP DIRECTOR

FOR WHAT PURPOSE DID YOU SEND THE MEMORANDUM DATED APRIL 26, 2000 TO THE DIRECTOR? HAVE YOU EXPRESSED SUPPORT FOR AN AUDIT OF THIS CONTRACT? TO WHOM, HOW AND WHEN? EXPLAIN?

Per ONDCP Legal Counsel Daniel Petersen, in a 10/16/2000 conversation with Committee Special Counsel Steve Dillingham, Mr. Dillingham indicated the above question contains two errors. The date should be April 13, 2000. In addition, the word "send" should be "see."

I saw a draft of the April 13th memorandum because Mr. Pleffner frequently shares his thoughts with me to obtain my feedback and inform me of his actions. I support an audit for this contract. I concur with Mr. Pleffner. This issue was discussed within our General Counsel and the Media Campaign Management Team.

QUESTIONS FOR THE RECORD TO ALAN LEVITT
HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN
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OCTOBER 4, 2000

4. DISCUSSION WITH CONTRACTOR OFFICIAL:

DID YOU HAVE A CONVERSATION WITH MS SEIFERT (CONTRACTOR'S PROJECT EXECUTIVE) IN WHICH SHE TOLD YOU THAT THE ONDCP DIRECTOR WAS SATISFIED WITH THE COSTS ON THE CONTRACT, AND THAT THE DIRECTOR WANTED THE CONTRACT TO GO FORWARD? EXPLAIN?

On June 5, 2000, Ogilvy gave a Youth Branding briefing. Following the briefing, Ms Seifert came to my office. She stated she had just talked with the Director. Ms. Seifert said that the Director was "more comfortable" with the Ogilvy labor costs after hearing staff reaction to an earlier briefing. Ms Seifert did not say the Director was "satisfied" with Ogilvy labor costs, only "more comfortable." Further, she stated that the Director was not planning to terminate the Ogilvy contract.

QUESTIONS FOR THE RECORD TO ALAN LEVITT
HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN
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5. COMMUNICATION WITH CONTRACT OFFICER PLEFFNER.

AFTER THE CONVERSATION WITH THE CONTRACTOR OFFICIAL, WHAT INFORMATION DID YOU RELAY TO YOUR CONTRACT OFFICIAL MR. PLEFFNER? WERE EITHER OF YOU SURPRISED BY THE SUBSTANCE OF THE COMMUNICATION. WHY OR WHY NOT? EXPLAIN?

I relayed to both Mr. Pleffner and Jill Bartholomew what Ms. Seifert had told me. I also relayed my frustration that the conversation between the Director and Ms. Seifert occurred before my staff and I had the opportunity to discuss with the Director our views concerning the Ogilvy presentation.

QUESTIONS FOR THE RECORD TO ALAN LEVITT
HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN
RESOURCES
OCTOBER 4, 2000

6. COST REDUCTION OPTIONS AND ISSUES.

- A. ACCORDING TO THE AUGUST 18, 2000 PRESENTATION (P. 4) BY THE CONTRACTOR ON PROPOSALS TO REDUCE COSTS, THE CONTRACTOR DOCUMENT STATES "WE IDENTIFIED THE SPECIFIC TASKS WHICH HAVE CAUSED AN INCREASE IN (CONTRACTOR) LABOR COSTS RELATIVE TO OUR BEST AND FINAL PROPOSAL (SUBMITTED NOVEMBER 1998) AND NOTED THAT MOST OF THESE TASKS ARE RELATED TO SUPPORT PROVIDED BY (CONTRACTOR) STAFF TO THE PARTNERSHIP FOR A DRUG FREE AMERICA."

REGARDING THIS STATEMENT BY THE CONTRACTOR, WAS THE CONTRACTOR REQUESTED OR LEVERAGED TO DEDICATE RESOURCES TO OTHER GROUPS (E.G. PDFA) OR ACTIVITIES BEYOND THEIR PROPOSAL? BY WHO? WHY?

The legislation for the National Youth Anti-Drug Media Campaign requires that with few exceptions the creative portion of developing anti-drug messages would be performed *pro bono*. It implicitly requires ONDCP to utilize the services of the Partnership for a Drug Free America (PDFA), whose member advertising agencies have historically performed such work at no cost.

Advertising production is also within the scope of the Ogilvy contract, and Ogilvy is expected to perform these duties. However, Ogilvy is also required to work with the PDFA regarding advertising production. This presents an unusual situation. The legislation requires ONDCP (and Ogilvy) to work with PDFA, but provides no vehicle that requires PDFA to work with ONDCP (or Ogilvy). Accordingly, the contract between ONDCP and Ogilvy contains an unknown variable.

During contract formation, Ogilvy and ONDCP contemplated that PDFA would perform certain tasks, but various outside factors and the science-based nature of the campaign have caused Ogilvy to perform more work than expected. Although the amount of work has increased, the work is within the scope of the original Statement of Work. For example, ONDCP, through Ogilvy, responded with advertisements to the growing use of the popular new "club drug," ecstasy and methamphetamine.

PDFA was not able to develop and provide Interactive anti-drug messages to the extent that the Media Campaign required them. Consequently, Ogilvy filled in this gap. Additionally, Ogilvy was tasked, after informing appropriate Congressional Committees

(as required by statute), to develop creative work to fill advertising gaps in multi-cultural advertisements that could not be acquired *pro bono*.

Stated simply, the additional tasks are contemplated under the Ogilvy contract. However, the required level of effort is higher than what was expected.

QUESTIONS FOR THE RECORD TO ALAN LEVITT
HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN
RESOURCES
OCTOBER 4, 2000

6. COST REDUCTION OPTIONS AND ISSUES.
- B. THE AUGUST 18TH PROPOSAL BY THE CONTRACTOR INDICATES COST SAVINGS, PRESUMABLY ANNUALLY OF MORE THAN \$9 MILLION. THIS PROPOSAL STATES (P.5):

OUR ANALYSIS INDICATES THE POTENTIAL FOR NON MEDIA COST SAVINGS OF AS MUCH AS \$9,057,881. THESE SAVINGS ARE PREDICATED ON THE TRANSITION OF SOME OF OGILVY'S CREATIVE, PLANNING AND ACCOUNT MANAGEMENT RESPONSIBILITIES TO PDFA, THE REALIGNMENT OF MULTICULTURAL SUBCONTRACTOR ROLES TO FOCUS ONLY ON THOSE TASKS WHICH ADD THE GREATEST VALUE TO THE MEDIA CAMPAIGN, AND A REASSESSMENT OF HOW WE SOURCE INTERACTIVE WORK.

WHAT IS YOUR ASSESSMENT OF THESE BUDGET PROPOSALS? SHOULD THEY BE DONE IMMEDIATELY? WHY WEREN'T SOME DONE SOONER? WAS ONDCP RESPONSIBLE IN ANY WAY FOR THESE ADDED COSTS? WHAT IS THE STATUS OF THESE PROPOSALS AT PRESENT? ARE THEY BEING IMPLEMENTED?

There appears to be a great deal of misunderstanding regarding Jane Twyon's assessment of Ogilvy and Ogilvy's subsequent response. Both are highly technical and require substantial context of the nature of the Media Campaign. The proposals identified in Ogilvy's August 18th presentation are not budget proposals or cost saving measures. The proposals merely identify functions that can be transferred to PDFA. If this occurs, Ogilvy's labor costs will be reduced. However, cost savings are not guaranteed. To implement the proposal, ONDCP must convince PDFA that it should undertake these tasks. We are currently discussing with PDFA what, if any, of the Ogilvy functions identified for potential transfer, could be assumed by PDFA, and under what circumstances.

QUESTIONS FOR THE RECORD TO RICHARD PLEFFNER
HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN
RESOURCES
OCTOBER 4, 2000

1. IDENTIFICATION OF CONTACT COST CONCERNS AND RESPONSIVE
ACTIONS

- A. WAS YOUR DECISION TO SEND YOUR APRIL 13, 2000
MEMORANDUM TO THE DIRECTOR A ROUTINE MATTER OR
SOMETHING OUT OF THE ORDINARY GIVEN YOUR POSITION?
DID YOU FEEL THIS WAS A SERIOUS CONCERN THAT
DESERVED FOLLOW-UP? EXPLAIN.

My decision to send the April 13, 2000 memorandum was something out of the ordinary. I did feel that this was a serious concern that deserved follow-up. In my experience, concerns of potential contractor misconduct were always promptly addressed and upper management was always apprised.

- B. AFTER THE ONDCP DIRECTOR REVIEWED YOUR
MEMORANDUM AND MADE COMMENTS ON IT INDICATING
THAT IN HIS OWN WORDS "WE NEED AN EXTERNAL AUDIT,"
WHAT DID YOU THINK THIS MEANT? DID YOU THINK IT WAS
SOMETHING TO BE ACTED ON SOON?

I thought the Director's comments that "we need an external audit" meant exactly what was stated, and that it was something to be acted on quickly as I indicated in the memorandum. The audit would be conducted upon transfer of the contract.

- C. DID THE ONDCP PROJECT MANAGER (MR. ALAN LEVITT) OR
HIS SUBORDINATE (MS. JILL BARTHOLOMEW) AGREE WITH
YOUR ASSESSMENT OF NEED? WHY?

Both Alan Levitt and Jill Bartholomew agreed with my concerns and opinion that an audit was needed. I had many discussions with both of them on the billing issues and Dan Merrick's assertions. In the course of our discussions they clearly agreed with the need for an immediate audit.

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I. IDENTIFICATION OF CONTACT COST CONCERNS AND RESPONSIVE
ACTIONS

D. DID YOU ASK HHS TO CONDUCT AN AUDIT? WHY DIDN'T
THEY? DID THEY OFFER IF ONDCP PAID FOR IT? DID ANYONE
AT ONDCP OFFER TO PAY FOR AN AUDIT?

My initial written request for an audit was on March 15, 2000. HHS responded in writing on March 17, 2000 that it was HHS policy to wait until the end of the contract to conduct an audit, and asked if ONDCP was willing to pay if there was the need for an audit. On March 22, 2000 I asked the contracting officer (Janet Miller) why ONDCP should pay for an audit, considering the \$600 thousand in fees already paid to HHS. On March 23, 2000 the contracting officer informed me she had forwarded my request to her management since "...they are the ones who make our policy decisions." The contracting officer informed me later that date that HHS management had approved ordering an audit if ONDCP was willing to pay for the audit. On March 29, 2000 I recommended to ONDCP Office of Legal Counsel that ONDCP pay for the audit and resolve the payment to HHS issue after the fact.

E. WERE YOU AWARE THAT THE ONDCP DIRECTOR HAD
MEETINGS WITH THE CONTRACTOR'S EXECUTIVES ON THIS
CONTRACT AFTER YOUR MEMORANDUM WAS SUBMITTED?
DO YOU HAVE REASON TO BELIEVE THAT CONTRACT COSTS
OR LABOR WAS DISCUSSED? EXPLAIN.

I was aware that the Director had meetings with the contractor's executives after my memorandum was submitted. I believe that contract costs were discussed because on June 6, 2000, I was informed by Alan Levitt and Jill Bartholomew that Shona Seifert had met privately with the Director on June 5th and after the meeting Shona Seifert stated that the Director was comfortable with contract costs and the contract would stay with Ogilvy.

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1. IDENTIFICATION OF CONTACT COST CONCERNS AND RESPONSIVE
ACTIONS

- F. WHO INFORMED YOU OF THE RESULTS OF THE DIRECTOR'S MEETING WITH MS. SEIFERT? WHAT EXACTLY WAS COMMUNICATED TO YOU ABOUT THE DISCUSSION? HOW DID THIS INFLUENCE YOUR THINKING REGARDING AN AUDIT AND IN MONITORING THE CONTRACT?

As stated in the response to (e), Alan Levitt and Jill Bartholomew informed me that there had been a meeting and of Shona Seifert's statement immediately after the meeting. This caused me to have doubts that an audit would take place. In my view, the program office had been put at a disadvantage.

- G. IN YOUR PROFESSIONAL OPINION, IS AN AUDIT NEEDED, PARTICULARLY IN VIEW OF YOUR DISALLOWED COSTS AND THEIR MAGNITUDE? SPECIFY SOME EXAMPLES OF DISALLOWED COSTS? IN YOUR EXPERIENCE, IS IT CUSTOMARY TO DEFER AN AUDIT OF A FIVE-YEAR CONTRACT UNTIL THE COMPLETION OF THE CONTRACT?

In my professional opinion, an audit is needed as soon as possible. Examples of disallowed costs include:

- Salaries that exceed what was represented in Ogilvy's proposal
- Salaries that exceed federal regulatory limitations
- Bonuses not represented in Ogilvy's proposal
- Costs unsupported by documentation
- Costs not allowed under Federal Travel Regulations
- Excessive travel costs
- Costs claimed as a result of erroneous computations

In my experience, an audit of a contract of this magnitude would not wait for five years, particularly in light of the extensive billing irregularities and lack of an approved accounting system. (I have asked HHS on a number of occasions for details associated with Ogilvy's accounting system and overhead pools and whether or not the system has been approved. HHS has responded by stating that DCAA previously reviewed Ogilvy's accounting system. I have asked DCAA for their audit report, and DCAA informed me that they have never done an audit on Ogilvy NY.)

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2. SPECIFY REASONS FOR COSTS AND BILLINGS CONCERNS

DID YOU SUSPECT THAT THE CONTRACTOR MIGHT BE SUBMITTING INACCURATE TIMESHEETS TO ONDCP? WHY? WITH YOUR EXPERIENCE, IS IT NORMAL FOR TIMESHEETS TO BE RE-SUBMITTED WITH INCREASED BILLABLE TIME ADDED?

I did suspect that the contractor might be submitting inaccurate timesheets. Ogilvy submitted their first invoice for labor in late September 1999, over nine and a half months after the contract was awarded. This invoice covered the first six months of performance. Approximately one third of the first invoice was questioned and withheld. Ogilvy subsequently submitted two additional invoices for labor for the same period of time. Documentation, including timesheets, that accompanied these invoices contained modifications and/or alterations resulting in a net increase for an overwhelming number of employees previously billed.

In my experience, it is not "normal" for documentation to be re-submitted with increased billable time added.

DID YOU NOTICE ANY APPARENT DISCREPANCIES OR CHANGES IN HAND WRITING ON RE-SUBMITTED TIMESHEETS, AS COMPARED TO THE HANDWRITING OF THE EMPLOYEE(S) WHO PURPORTEDLY SUBMITTED ORIGINAL TIMESHEETS?

I did notice apparent discrepancies and changes in hand writing on resubmitted timesheets, which led me to perform an inspection in January 2000. As part of the inspection, we interviewed a number of employees and asked them if they recognized the changes and who made the changes. The inspection did not reveal any evidence of misconduct.

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3. RESPONSE TO DIRECTOR'S WRITTEN COMMENTS.

WHEN THE DOCUMENT YOU SENT WAS RETURNED TO YOU, DID YOU THINK AN IMMEDIATE AUDIT ON THE CONTRACT WOULD TAKE PLACE? WHY? WHAT DO YOU INTERPRET THE WORD "NO!" TO MEAN ON THE RIGHT-HAND MARGIN OF PAGE 2 OF THE 4/13/2000 MEMO? WHAT DO YOU INTERPRET THE WORD "YES" UNDER THE CIRCLED WORDS "IMMEDIATE AUDIT" TO MEAN? WHAT DO YOU INTERPRET THE WORDS "WE NEED AN EXTERNAL AUDIT" TO MEAN ? EXPLAIN.

When the memorandum I sent was returned, I did think an audit would take place very soon because the Director's comments seemed to emphatically agree with my recommendation for an audit immediately upon transfer of contract administration, and I anticipated the transfer of the contract to be imminent. I interpret the words "we need an external audit" to mean that we need to have an auditing entity perform an audit.

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4. CONSULTANT REPORT AND RESPONSE.

DID THE "TWYON REPORT" INCREASE YOUR CONCERNS OF POTENTIAL OVER-BILLING? EXPLAIN.

Yes, the Twyon report did increase my concerns of potential over-billing because it had initial findings that the staffing proposed for year 2 of the contract seemed to be excessive in comparison to industry standards, the labor mix appeared to be top heavy and the salaries were extremely high.

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5. COMMUNICATIONS AND CONTRACTOR'S RESPONSE TO CONCERNS.

AFTER MS. SEIFERT'S PRIVATE MEETING WITH THE DIRECTOR ON JUNE 5, 2000, SPECIFICALLY WHAT DID MR. LEVITT AND/OR MS. BARTHOLOMEW TELL YOU ABOUT THEIR CONVERSATION WITH MS. SEIFERT?

As stated in the answer to 1(e), on June 6, 2000, I was informed by Alan Levitt and Jill Bartholomew that Shona Seifert had met privately with the Director on June 5th and after the meeting Shona Seifert stated that the Director was comfortable with contract costs and the contract would stay with Ogilvy.

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6. COST AND STAFFING ISSUES.

ACCORDING TO THE 1998 BEST AND FINAL PROPOSAL, MS. SEIFERT, A COMPARATIVELY HIGHLY PAID EXECUTIVE, WAS TO PROVIDE ONLY A SMALL PORTION OF HER TIME AND IT WAS TO BE PRO BONO. IS SHE NOW THE CONTRACTOR'S KEY PERSON FOR MANAGING THIS ACCOUNT? IN BILLING RECORDS, WHAT PERCENTAGE OF HER TIME IS SHE BEING PAID UNDER THIS CONTRACT? ARE YOU AWARE OF THE REASON FOR THIS CHANGE? WERE THE NECESSARY APPROVALS OBTAINED OR CONTRACT CHANGES MADE TO ACCOMMODATE THIS CHANGE? EXPLAIN. DO YOU KNOW IF SHE CONTINUES TO MANAGE OTHER CONTRACTOR ACCOUNTS? SHOULD SHE HAVE BEEN DESIGNATED AS ONE OF THE "KEY PERSONNEL" UNDER THE CONTRACT? WAS SHE? IF NOT, WHY NOT?

The 1998 Best and Final Proposal represented Ms. Shona Seifert as pro bono for the entire five year term, but did not quantify the amount of her time to be dedicated to this account/contract. Ms. Seifert is now the contractor's key person for managing this account. Per the billing records, approximately 94% of her salary is being paid under this contract. This change took place after discussions and negotiations between Ogilvy, HHS and ONDCP. To the best of my knowledge, the change took place because Ogilvy, HHS and ONDCP agreed it was reasonable. To the best of my knowledge, HHS did not execute a contract modification to change Ms. Seifert from pro bono to a reimbursable cost. To the best of my knowledge, Ms. Seifert does devote time to other accounts and is the account executive for other accounts. Ogilvy requested that she be designated as one of the "Key Personnel" under the contract. However, the "Key Personnel" clause is designed to protect the government, not the contractor, and making this designation was not considered to be a requirement for ONDCP.