

## DOCUMENT RESUME

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Federal Energy Administration's Contract with the Advertising Council, Inc., for a Public Relations Campaign on the Need to Save Energy. PSAD-77-151; B-178205. August 31, 1977. 23 pp. + 6 appendices (14 pp.).

Report to Rep. John D. Dingell, Chairman, House Committee on Interstate and Foreign Commerce: Energy and Power Subcommittee; by Elmer B. Staats, Comptroller General.

Issue Area: Energy: Effect of Federal Efforts on Energy Conservation (1607); Federal Procurement of Goods and Services: Reasonableness of Prices Under Negotiated Contracts and Subcontracts (1904).

Contact: Procurement and Systems Acquisition Div.

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Congressional Relevance: House Committee on Interstate and Foreign Commerce; House Committee on Interstate and Foreign Commerce: Energy and Power Subcommittee; Senate Committee on Energy and Natural Resources.

In October 1973 The Advertising Council, Inc., was selected to conduct a nationwide public service advertising campaign to encourage energy conservation. Although the contract expired in September 1975, contractual disputes have prevented final monetary settlement. Findings/Conclusions: Following expiration of the contract, Federal Energy Administration personnel began to question whether the Council should be reimbursed for some of the costs, and former personnel publicized allegations of fraudulent claims. No indication of fraud was found. There were some costs that appeared questionable until subjected to further audit. Of the \$18,985 questioned, \$11,351 was allowable, \$4,336 was unallowable, and \$3,296 was unresolved. The Government has withheld \$25,659 pending resolution of this matter. The cost questions can be attributed to a lack of understanding and agreement as to what constituted reimbursable expenses. The creative services subcontractor's personnel were not familiar with the Federal Procurement Regulations and followed what they considered to be routine business procedures. Recommendations: The Federal Energy Administration should direct its contracting officer to reimburse the Council \$18,027, the difference between the amount unpaid and the amounts unallowable or still in question, and to make a final determination on the \$3,296 in unresolved costs and expedite a final settlement. The Advertising Council, Inc., should develop and employ procedures that will alert its subcontractors to applicable Federal cost principles.

(Author/SC)

02582

*REPORT TO THE CHAIRMAN,  
SUBCOMMITTEE ON ENERGY AND  
POWER  
HOUSE COMMITTEE ON INTERSTATE  
AND FOREIGN COMMERCE*

*BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES*

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**Federal Energy Administration's  
Contract With The Advertising  
Council, Inc., For A Public  
Relations Campaign On The  
Need To Save Energy**

In October 1973 The Advertising Council, Inc., was selected to conduct a nationwide public service advertising campaign to encourage energy conservation. Although the contract expired in September 1975, contractual disputes have prevented final monetary settlement.

GAO makes recommendations on final contract settlement and future federally sponsored public relations campaigns with The Advertising Council, Inc.



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-178205

John D. Dingeli, Chairman  
Subcommittee on Energy and Power  
House Committee on Interstate  
and Foreign Commerce

Dear Mr. Chairman:

This report is in response to your request for an audit of the Federal Energy Administration's contract with The Advertising Council, Inc., for a public-service advertising campaign on energy conservation. Significant aspects of the audit are summarized in the report's digest.

In accordance with agreements reached with your office, we plan to distribute the report in our usual manner and to make the report available to the public.

Sincerely yours

A handwritten signature in black ink that reads "Thomas B. Staals".

Comptroller General  
of the United States

COMPTROLLER GENERAL'S  
REPORT TO THE CHAIRMAN  
SUBCOMMITTEE ON ENERGY  
AND POWER, HOUSE  
COMMITTEE ON INTERSTATE  
AND FOREIGN COMMERCE

FEDERAL ENERGY ADMINISTRATION'S  
CONTRACT WITH THE ADVERTISING  
COUNCIL, INC., FOR A PUBLIC  
RELATIONS CAMPAIGN ON THE NEED  
TO SAVE ENERGY

D I G E S T

Because of growing concern over a possible oil shortage and the Arab oil embargo of 1973, the Government began a nationwide public-service advertising campaign to

- make the public aware of the seriousness of the energy situation and
- encourage the public to conserve energy.

The Advertising Council, Inc., was awarded a sole-source contract to conduct the campaign (see p. 6) because it has the unique capability to encourage national and local media to contribute public-service (free) time on television and radio and free space in newspapers, magazines, billboards, and other print media. Based on Neilson ratings and data provided by other advertising media, the campaign received an estimated \$85 million in free advertising over 2 years. (See p. 17.)

The creative services for the campaign were provided by Cunningham & Walsh, Inc. Neither the Council nor Cunningham & Walsh charged for their time or services.

Once the Arab oil embargo was removed, the Government decided to redirect the campaign toward the need for long-term energy conservation, including messages depicting the Nation's vulnerability to Arab oil interest. A disagreement between the Federal Energy Administration and the Council over presenting such messages (see p. 8) could not be resolved, and the contract expired in September 1975.

Federal Energy Administration personnel began to question whether the Council should be reimbursed for some of the costs (see p. 9) and former personnel publicized allegations of fraudulent claims. The amount questioned was \$18,985, or about 3 percent of the \$602,176 total contract costs.

GAO found no indication of fraud. There were some costs that appeared questionable until subjected to further audit. Of the \$18,985 questioned, \$11,351 is allowable, \$4,336 is unallowable, and \$3,296 is unresolved. (See p. 14.) The total of \$7,632 in unallowable and/or unresolved costs is more than offset by the \$25,659 the Government has withheld pending resolution of this matter.

GAO believes the cost questions can be attributed to a lack of understanding and agreement as to what constituted reimbursable expenses. Cunningham & Walsh personnel were not familiar with the Federal Procurement Regulations and followed what they considered to be routine business procedures.

GAO recommends that the Federal Energy Administration direct its contracting officer to

- reimburse the Council \$18,027, the difference between the amount unpaid and the amounts unallowable or still in question and
- make a final determination on the \$3,296 in unresolved costs and conduct a final settlement in an expeditious manner.

GAO suggests that The Advertising Council, Inc., develop and employ procedures that will alert its subcontractors to applicable Federal cost principles. Council officials told GAO they are

- taking actions to prevent recurrences of the problems which surfaced during the energy conservation campaign,
- currently developing a pamphlet that will explain for subcontractors the

basic provisions of Government cost regulations, and

- developing a standard contract that will address the Federal Procurement Regulations and specify what services the Government is obtaining.

These actions, if effectively carried out, should help insure that only costs meeting the criteria of Government regulations will be incurred by contractors and reimbursed by Federal agencies.

#### AGENCY COMMENTS

The Federal Energy Administration and the Defense Contract Audit Agency concurred with GAO's conclusions and recommendations. The former also stated that it would make payment to the Council upon issuance of GAO's final report. (See apps. III and IV.)

#### CONTRACTOR COMMENTS

The Advertising Council, Inc., and Cunningham & Walsh, Inc., commented (see apps. V and VI) that GAO's report was an accurate presentation of the facts, but disagreed with GAO's conclusions on two costs claimed for reimbursement. (See pp. 11 and 15.)

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#### ABBREVIATIONS

FEA	Federal Energy Administration
GAO	General Accounting Office



## CHAPTER 1

### INTRODUCTION

As requested by the Chairman, Subcommittee on Energy and Power, House Committee on Interstate and Foreign Commerce, we have audited the Federal Energy Administration's (FEA's) contract with The Advertising Council, Inc. (See app. I.) Specifically, the chairman asked that our audit

- determine the basis of all major charges made by the Advertising Council and its subcontractors;
- evaluate the justification, if any, for such questionable charges as a drug bill, a \$203 dinner bill for advertising executives, liquor bills, and the like;
- identify the reasons why it was necessary to contract with the Advertising Council on a sole-source basis rather than by competitive procurement; and
- determine what steps can be taken in the future to insure tighter Government controls over Advertising Council expenses.

### SCOPE OF REVIEW

The Defense Contract Audit Agency performed three audits of the costs charged to this contract. We discussed the results with its auditors, reviewed its techniques, and examined its working papers. The scope and adequacy of its work were sufficient for us to rely on its findings and conclusions.

In addition to reviewing contract files and related documentation, we also discussed the contract and its administration with

- numerous former and current FEA officials;
- officers of The Advertising Council, Inc.;
- personnel from Cunningham & Walsh, Inc., the volunteer advertising agency; and
- a film producer of campaign material.

## CHAPTER 2

### THE ADVERTISING COUNCIL, INC., AND

#### PUBLIC-SERVICE ADVERTISING

The Advertising Council is a private, nonprofit organization supported by the advertising industry, communications media, and business community. An 85-member board of directors composed of executives from the supporting organizations decides what advertising campaigns the Council will accept. The public policy committee, made up of nonboard members from various segments of society, reviews and passes on requests for Council assistance.

The Council's unique position is due to its success in encouraging national and local media to contribute free public-service time on radio and television and free space in newspapers, consumer magazines, business press, outdoor billboards, and other advertising media. The Council's acceptance and sponsorship of a campaign was compared to the "Good Housekeeping seal of approval" by a Council representative.

#### PUBLIC-SERVICE ADVERTISING

The Federal Communications Commission requires the managers of each station (television or radio) to give some indication of the station's public-service activities at license-renewal time. Managers usually respond by showing the amount of air time devoted to public-service announcements. These announcements are called public-service advertising because the messages are intended to be in the general public's interest and the time is contributed by the station's management.

Free of charge, the Council makes available to both the electronics and print media a wide array of advertising materials, suggesting the materials be aired and/or published. The media managers know the Council's materials (1) qualify as public-service advertising, (2) have been reviewed for public viewing, and (3) are free.

HOW THE COUNCIL IDENTIFIES  
CANDIDATE CAMPAIGNS  
IT WILL ACCEPT

The Council receives numerous requests from private organizations and Government agencies to manage their advertising campaigns. Before the Council considers any campaign request, the Council's criteria must be met:

"The campaign must be non-commercial, non-denominational, non-partisan politically, and must not be designed to influence legislation.

"The purpose of the campaign is such that the advertising methodology can help achieve its objectives.

"If the organization is a fund-raising one, the Council will take into consideration whether or not that organization currently meets the standards of public and private accreditation organizations, such as the National Information Bureau.

"The campaign must be sufficiently national in scope so that it is relevant to media audiences in communities throughout the nation.

"The appeal for support shall be one properly made to Americans generally, whether delivered by national or local media. (The campaign, however, will not be rejected because it is in the interest of one group if the action messages have wide appeal, national significance, and local applicability.)

"The campaign must be of sufficient seriousness and public importance to warrant donations of space or time by national and local media."

The Council's public policy committee determines whether a request meets the criteria and makes recommendations to the board of directors. The board decides which campaigns the Council will accept.

## HOW THE COUNCIL OPERATES

After a campaign has been accepted, the Council sets up a task force to carry it out. The task force consists of

- a volunteer advertising agency (ad agency) that produces the creative ideas included in the advertising materials and is selected from a list of ad agencies that have expressed interest in doing such work;
- a volunteer coordinator who mediates any disputes that may arise between the client, Council, and/or ad agency and is generally a chief marketing executive of a nationally known company and a member of the Council's board of directors; and
- a campaign manager who is one of the Council's paid, full-time staff and directs and guides the client and ad agency.

## CONTRACTUAL ARRANGEMENTS

The Council and client sign a contract that documents the specifics agreed to by the parties. The client will pay the Council its "out-of-pocket expenses" incurred during the campaign. The Council also has an 8.5-percent indirect rate to cover costs that cannot be charged directly to individual contracts. The Council does not charge the client for its staff salaries.

The subcontract between the Council and ad agency is generally an oral agreement or a "handshake" contract. The client, therefore, must rely on the Council to insure that the ad agency carries out the campaign. The client, through the Council, reimburses the ad agency for its out-of-pocket expenses incurred while developing and producing campaign materials. In addition, the ad agency usually procures services and materials from specialized vendors; these are also reimbursed by the client. The ad agency does not charge the Council for its creative services or staff salaries, nor does it add the customary markup charged commercial clients.

Council officials told us that the ad agencies volunteer their services because (1) such efforts build prestige within the industry and (2) agency personnel find such work challenging. Conflicts of interest (i.e., a volunteer ad agency designing an antismoking campaign while one of their large accounts is a tobacco company) are avoided through voluntary disclosure. As an example, a Council official told us the Government's swine flu vaccine campaign was to be handled by a certain volunteer ad agency until it was learned the agency had a pharmaceutical account also manufacturing the vaccine. Another agency was subsequently selected.

## CHAPTER 3

### HISTORY OF THE ENERGY CAMPAIGN

There had been an awareness within the Federal Government of a potential oil shortage before the 1973 oil embargo. The embargo, however, dramatized the need for energy conservation.

Nevertheless, there was widespread public skepticism as to the seriousness of the situation. In October 1973 the Government, therefore, requested the Council to conduct a campaign of public-service advertising on the need for energy conservation and elicit public cooperation.

The Council agreed, and Cunningham & Walsh, Inc., volunteered to be the ad agency. Energy conservation advertisements reached the public before the end of 1973.

#### RESPONSIBLE AGENCIES

FEA was not in existence when the campaign started in October 1973. The Department of the Interior's Office of Energy Conservation was responsible for energy policy and the Bureau of Mines for contract administration support.

The Bureau of Mines awarded the contract to the Council in October 1973. The contract, initially valued at \$150,000 for 12 months, was subsequently increased to \$675,000 and extended another year.

In December 1973 Government responsibility for the contract and campaign was transferred to the Federal Energy Office, and later to FEA when it was formed in June 1974. Responsibility has since remained with FEA.

#### CAMPAIGN DEVELOPMENT

The overall goals of the campaign were to (1) generate public awareness of the seriousness of the energy shortage; (2) demonstrate how citizens can reduce energy consumption; and (3) motivate citizens to practice conservation measures.

Initial campaign direction was quite general, with ideas being developed at joint conferences attended by

FEA personnel and representatives of the Council and Cunningham & Walsh. The consensus at that time was that public conservation of energy was the most urgent short-term need. The campaign theme "Don't Be Fuelish" was adopted to communicate this idea.

The first FEA technical project officer told us that the campaign proceeded smoothly during these initial stages. Advertisements were produced quickly and the campaign received widespread media support.

After the oil embargo was lifted in early 1974, the Government decided to redirect the campaign toward more long-term conservation measures. At the same time there was a change in FEA personnel and policy.

The new FEA personnel wanted to stress America's vulnerability to foreign energy sources and include this message in subsequent campaign advertisements. This theme was in agreement with the President's "Project Independence" and was first discussed with the Council and Cunningham & Walsh in August 1974.

Cunningham & Walsh, with FEA concurrence, began developing public-service announcements stressing the need for long-term energy conservation. While the first of these announcements was approved for release, FEA personnel continued to emphasize the need to develop future advertisements emphasizing U.S. vulnerability to foreign oil interests.

The Council and Cunningham & Walsh began expressing concern that such a theme might not gain media acceptance as public-service advertising. They also questioned the inherent political nature of such a theme because it could be interpreted as an attempt to influence legislation. The Council expressed its belief that in both respects the vulnerability theme violated its established campaign criteria. FEA officials, however, continued to insist that such advertisements be developed.

FEA's first technical project officer told us that he agreed with the Council that such advertisements were not representative of public-service advertising. This technical officer left FEA, and his responsibilities were assumed by two new Government personnel. Unlike their predecessor, these officials (1) favored the vulnerability concept and (2) believed the advertisements would be representative of Government policy and should be acceptable as public-service advertising. In fact,

FEA obtained the Energy Resources Council's approval to produce the vulnerability advertisements. The Energy Resources Council, Executive Office of the President, was responsible at that time for insuring that the Federal Government's energy policy was consistent.

While Cunningham & Walsh continued to disagree with this approach, they did create several ideas for advertisements and presented them to FEA personnel in March 1975. The FEA people selected one idea called the "Chessboard" spot, for the next campaign effort. Because this idea could be construed as an insult to the Arab nations, it was rejected by the Council and Cunningham & Walsh. Cunningham & Walsh's people told us that the Chessboard idea had been presented only to show FEA the unacceptability of the concept. They did not intend to have the idea seriously considered. This refusal to produce the vulnerability idea led to several confrontations between the people at FEA and Cunningham & Walsh involving the allowability of campaign costs and other policy matters. The differences were never resolved and Cunningham & Walsh resigned from the campaign in June 1975.

The Council and FEA attempted to work out their differences during June and July 1975. FEA decided, however, in late July to allow the contract to expire in September 1975.



## CHAPTER 4

### ALLOWABILITY OF COSTS

Early in 1975 FEA personnel began questioning whether certain costs should be reimbursed by the Government. FEA subsequently requested the Defense Contract Audit Agency to examine the basis of costs submitted for reimbursement. The audit agency performed, not one, but three reviews of the costs claimed by the Council and/or Cunningham & Walsh.

Allegations of fraudulent claims were also publicized by former FEA personnel. As a result, the Chairman, Subcommittee on Energy and Power, House Committee on Interstate and Foreign Commerce, asked us to audit FEA's contract with the Council.

### STATUS OF CONTRACT

The contract authorized campaign related costs up to a maximum of \$675,000. Total costs claimed by the Council amounted to about \$602,000. Requests for payment, totaling \$25,659, have not been paid by FEA.

### DEFENSE CONTRACT AUDIT AGENCY AUDITS

The first two audit reports, dated January 13 and November 26, 1975, covered the following amounts.

	<u>Claimed by the Council</u>	<u>Examined by audit agency</u>	<u>Percent examined</u>
1st audit	\$299,609	\$204,315	68.2
2nd audit	<u>302,567</u>	<u>258,836</u>	85.5
TOTAL	<u>\$602,176</u>	<u>\$463,151</u>	76.9

The first audit did not question any of the costs claimed by the Council. The second audit questioned costs of \$2,616 on the basis that they were erroneously charged to the FEA's contract when they should have been charged to a Department of Commerce contract. The Council concurred with the audit agency.

## FEA QUESTIONED ITEMS

On October 13, 1976, a meeting was held with personnel from FEA, the Defense Contract Audit Agency, Cunningham & Walsh, and the Council. The purposes of the meeting were to have

--FEA present whatever costs it believed questionable and

--the Council and Cunningham & Walsh present whatever support they believed justified their request for reimbursement.

FEA questioned costs totaling \$15,812. These costs were for such items as filming a television public-service announcement in Disneyland, travel expenses, hotel bills, and film screenings. The Council and Cunningham & Walsh were able to justify \$9,133 of the questioned costs.

A third audit report was issued on November 13, 1976, covering the cost items discussed at the October meeting. A total of \$6,678 was unresolved as of April 28, 1977. This total consists of the following items.

- \$ 203      Claimed for film screenings. Documentation could not be located at the time of the audit to prove this cost was actually incurred.
  
- \$1,459     Claimed for hotel lodgings. Similarly, documentation could not be located to prove these costs were actually incurred.
  
- \$3,296     Claimed for the costs of labor and equipment rental incurred during 2 additional days of filming a public-service announcement. Documentation showed that these costs were incurred; however, documentation was not available to justify the necessity for their being incurred.

\$1,720 This amount is the difference between flying first class rather than coach. The trips were made in preparation for filming a public service announcement in Disneyland. The former FEA technical project officer, in charge of the contract at that time, explained his reasons for authorizing the Disneyland trips in an October 21, 1976, memorandum.

The memorandum explained that initially the trips were to be made in a military aircraft. The film producer submitted his bid on this basis and did not include any costs for transportation. At the last minute the military aircraft was not available, and travel by commercial airlines was authorized. A revised cost estimate reflecting the travel costs not included in the original bid was approved. Cunningham & Walsh gave us the movie film that verifies the public-service announcement was produced.

In its comments, the Council stated that first class travel had to be used because of contract requirements. (See app. V, p. 33.) The contract requirements are those of the International Alliance of Theatrical Stage Employees and Moving Picture Machine Operators of the United States and Canada, AFL-CIO and the Director's Guild of America which specifically require that their members be provided first class accommodations on all travel to and from assignments.

Cunningham & Walsh in their comments (see app. VI) also pointed out that first class travel was required by industry union agreements to which they were a signatory. The advertising agency noted that there was always tremendous pressure to perform on an urgent and immediate basis and therefore, many actions were initiated without proper reflection on their own established policies, as well as on Government policies.

#### OTHER COSTS QUESTIONED

Other costs were identified and questioned by a former FEA official but were not presented to the Defense Contract Audit Agency for review. These costs were as follows.

Dinners	\$403.13
Drinks	86.82
Tuxedo rental	37.80
Valet	19.56
Medicine	2.00
Cleaning	<u>6.25</u>
Total	<u>\$555.56</u>

Our analysis of the documentation showed these costs were taken from the expense accounts of five individual employees of Cunningham & Walsh who were working on the FEA campaign. The expenses were incurred during the period February 26, 1974, through January 9, 1975. We noted that the expenses (including dinners and drinks) charged to FEA were identical to and treated in the same manner as expenses charged commercial clients. In some instances, the dinner or drink expense was incurred while contacting well-known personalities to request appearances in support of the FEA campaign.

In commenting on our draft report the Council stated:

"The reference to a 'tuxedo rental' refers to the attendance at the Advertising Council Annual Dinner of 1974 by the creative director of the volunteer advertising agency in connection with FEA campaign matters. His presence would not have been required otherwise.

"Reference to 'valet services' reflects the need for such service by a member of the volunteer advertising agency's campaign task force while on travel in connection with campaign-related activities. A separate reference to 'cleaning' covers similar expense in similar context.

"The 'medicine' referred to was for a headache remedy required by a member of the volunteer task force and was billed because he possessed the required dosage in his medicine cabinet at home and felt that to purchase same while on travel was a legitimate added expense he would not otherwise have incurred."

Section 1-15.201-3 of the Federal Procurement Regulations states:

- A cost is reasonable if, in its nature or amount, it does not exceed what an ordinarily prudent person would incur in the conduct of competitive business.
- What is reasonable depends upon a variety of considerations and circumstances involving both the nature and amounts of the costs in question.
- In determining the reasonableness of a given cost, consideration shall be given to (among other things) whether the cost is of a type generally recognized as ordinary and necessary for the conduct of the contractor's business or the performance of the contract.

In our opinion, the questioned costs of \$556 meet the above criteria of the Federal Procurement Regulations and are allowable. In addition, Cunningham & Walsh personnel told us, and the expense accounts show, that the questioned items are considered routine business expenses.

#### OTHER ITEMS

Two additional items were also questioned by former FEA officials. These items are discussed below:

- A former FEA official questioned why a 35-percent markup was added to a bill for travel costs claimed by the film-maker who produced the Disneyland film. This rate represents the standard industry charge normally added to production costs. It was not, however, added to the travel costs claimed under the FEA contract.

--An FEA official questioned the equitability of the Council's 8.5-percent indirect cost rate. The Defense Contract Audit Agency found the Council was applying the 8.5-percent rate while it was actually incurring indirect cost rates of 17.35 to 19.54 percent. We also noted that the Council applies the same 8.5-percent rate to all public-service campaigns.

We found no indication of fraudulent expense claims. It is our opinion that of the \$18,985 total amount questioned, \$11,351 is allowable. These costs are shown below.

- \$9,133 The amount justified by the Council and Cunningham & Walsh at the October 13, 1976, meeting.
- \$ 203 Documentation was provided by Cunningham & Walsh on June 10, 1977, that showed this cost was incurred and was for screenings of FEA films.
- \$ 556 Costs questioned by a former FEA official. The costs meet the criteria of the Federal Procurement Regulation as ordinary and necessary for the conduct of the contractor's business.
- \$1,459 Hotel lodgings during the filming of the Disneyland public-service announcement. Documentation to show these costs were actually incurred was provided on June 15, 1977, and July 18, 1977.

A total of \$4,336, in our opinion, is unallowable because:

- \$2,616 The amount was erroneously charged to the FEA contract. The amount has been billed to the Department of Commerce and the Council has been reimbursed.

\$1,720 The difference between first class and coach air fare. The contractors explained the circumstances regarding their use of first class accommodations (see p. 11). We do not disagree with these facts; nevertheless, Government policy is that coach accommodations are to be used unless none are reasonably available.

A total of \$3,296 in costs claimed for 2 additional days of filming is unresolved. The contracting officer, therefore, will have to make a final determination on the allowability of these costs.

The Council and Cunningham & Walsh in commenting on our draft report (see app. V and VI) stated that, in their opinion, prior approval by the technical project officer had been obtained before the costs were incurred.

We found that Cunningham & Walsh did submit an estimate dated January 14, 1975, for the additional costs that would be incurred because the Government could not provide transportation as originally planned. A letter dated January 15, 1975, transmitted the estimate and indicated that the revision was based on the addition of 2 days of shooting and additional travel costs. (This is the documentation referred to in the contractors' comments as being provided to us.) This estimate, however, was not approved.

A revised estimate dated January 23, 1975, was then submitted and approved on January 27, 1975. The revised estimate did not indicate whether the costs for 2 additional days of photography were included.

## CHAPTER 5

### ADVERTISING BY THE GOVERNMENT

An agency can select one of the following methods to advertise:

- Public-service advertising through the Council (e.g., FEA's campaign).
- Public-service advertising through a paid advertising agency, with time and space still contributed by the media without charge.
- Advertising through an advertising agency and paying for time and/or space (e.g., some of the recruiting campaigns by the military for the all-volunteer force).

#### PUBLIC-SERVICE ADVERTISING THROUGH THE COUNCIL

The major advantage of this method is cost savings because the Government agency pays neither for staff services of the Council and advertising agency nor for media time and space. In addition, the Council's prestige provides a high degree of media acceptability, and the volunteer coordinator and the advertising agency provide professional expertise.

The disadvantages are that control over the content of the campaign is shared with the Council and the volunteer agency. Also, Council campaigns are generally broadly based instead of directed toward selected segments of the population.

The FEA contract was awarded on a sole-source basis because (1) the Government wanted immediate action, therefore, time-consuming competitive bidding procedures could not be used and (2) the Council is the only organization that offers such a full range of services.

The Council also gives each of its clients a dollar estimate of the time and/or space donated to the client's campaign. This estimate is based on data the Council receives from the media plus Nielsen ratings. The client can use this information to determine the extent of media exposure its campaign has received.



The Council estimates the FEA campaign received \$85 million in media exposure over a 2-year period ending in September 1975. The Council acknowledged that the oil shortage and embargo significantly contributed to motivating the media to publicize the FEA campaign.

#### PUBLIC-SERVICE ADVERTISING WITH A PAID ADVERTISING AGENCY

Under this method the Government pays for the services of the advertising agency which tries to obtain free time and space from the media.

There are several advantages of this method:

- The Government selects the advertising agency it wishes to deal with.
- The Government has greater control over the content and direction of the campaign.
- The campaign can be directed toward specific localities or population segments instead of the entire Nation.

The disadvantages of this method are:

- It is more expensive. Cunningham & Walsh estimated it would have cost about \$500,000 more to run the FEA campaign under this method.
- It is extremely difficult for an advertising agency to obtain free media time and space without the Council's "endorsement." Also, the media knows the agency is being paid and is, therefore, reluctant to provide free time and space.
- Because it does not provide readily available information that can be used to measure exposure, evaluation of the campaign's success is difficult.

#### PAID ADVERTISING

The advantages of this method is that the Government has complete control over the campaign and can direct it at the specific population segment desired. Such precision cannot be assured under public-service advertising.

The obvious disadvantage is cost. For example, the Council estimated that the value of media time and/or space donated to the 1975 Cooperative Forest Fire Prevention-- "Smokey Bear" campaign was about \$36 million.

## CHAPTER 6

### OTHER GOVERNMENT CONTRACTS WITH

#### THE ADVERTISING COUNCIL, INC.

The Advertising Council, Inc., had 13 contracts with various Government agencies as of January 1977. (See app. II.) The total value of these contracts was about \$2.5 million.

We selected two of these contracts, the Department of Agriculture's Cooperative Forest Fire Prevention--"Smokey Bear" and the Department of Transportation's Drive at 55 MPH, to compare with the FEA contract. We found the Council's procedures were very similar on all three contracts, but the agencies' management procedures and the form of the contracts varied.

#### COOPERATIVE FOREST FIRE PREVENTION--SMOKEY BEAR

The original contract between Agriculture's Forest Service and the Council is in the form of a memorandum of agreement which has been renewed annually since 1942. The objective of the 1977 campaign is to increase public knowledge and concern over the money spent and natural resources wasted by man-caused fires. The agreement specifies (1) what costs shall be reimbursable, (2) the services provided without compensation, and (3) the procedures the Council shall follow to incur obligations.

Campaign responsibility is vested in a 13-member task force that includes

- seven Federal and state forestry representatives,
- a volunteer coordinator,
- a campaign manager from the Council,
- a representative from the advertising agency,
- a Forest Service technical advisor, and
- two Smokey Bear program staff members.

An executive committee gives direction concerning annual program goals, but sets no bounds on the advertising agency's creativity. The advertising agency submits its production cost estimates and ideas to the committee at planning sessions. The committee then selects the ideas which capture their concept of the program within funding limitations.

The following procedures are used by the Government and contractors to insure the allowability and reasonableness of costs:

- The advertising agency solicits a minimum of three bids from vendors for required goods or services.
- The Forest Service, with the advice of the Council's campaign manager, selects the winning bid.
- Vouchers are reviewed for technical questions and verified against purchase orders. Vouchers are also checked for reasonableness and adequacy of support.

Forest Service representatives told us that advertising agency personnel had been confused as to what constituted allowable travel costs in the earlier years of the program. We reviewed several expense vouchers for the 1976 campaign and found no questionable travel costs.

Overall the Forest Service representative told us they were very pleased with the campaign and the performance of the Council and the advertising agency. They report that media coverage has been extensive (\$36 million in donated time and space in 1975) and that the campaign is popular and successful.

#### DRIVE AT 55 MPH

The objective of this campaign was to encourage the driving public to voluntarily obey the national speed limit of 55 miles per hour. The Department of Transportation awarded the Council its standard contract on October 22, 1975.

The contract is specific in detailing the program strategy, identifying the persons responsible for preparing and implementing the media schedule and campaign budget, approving announcements, and producing campaign materials. It also describes the oral and written reports required on the campaign's progress but is not specific regarding the extent of media coverage.

Transportation's program manager stated all expense vouchers are accompanied by supporting bills from suppliers that identify individual cost items. Whenever cost questions arise, he usually seeks explanations from the Council's campaign manager. He deals with the advertising agency only when immediate answers are needed. Our review of selected expense vouchers showed that the stated procedures are generally being followed in actual practice.

## CHAPTER 7

### CONCLUSIONS, AGENCY AND CONTRACTOR COMMENTS, AND RECOMMENDATIONS

#### CONCLUSIONS

We did not find any indication of fraud. Unallowable and unresolved costs total \$7,632, or only 1.2 percent of the total \$602,176 claimed.

These cost questions arose because of a lack of understanding and agreement between the people at FEA and the Council as to what constituted out-of-pocket expenses. Cunningham & Walsh personnel were not familiar with the Federal Procurement Regulations and followed what they consider to be routine business procedures.

#### RECOMMENDATIONS

##### Federal Energy Administration

We recommend that the Federal Energy Administration

--reimburse the Council \$18,027, the difference between the amount unpaid and the amount still unresolved or unallowable and

--resolve speedily the allowability of costs still in question and make final settlement.

##### The Advertising Council, Inc.

We recommend that the Council develop and employ procedures that will alert its subcontractors to applicable Federal cost principles. Council officials told us they are

--taking actions to prevent recurrences of the problems which surfaced during the energy conservation campaign,

--currently developing a pamphlet that will explain for subcontractors the basic provisions of Government cost regulations, and

--developing a standard contract that will address the Federal Procurement Regulation and specify what services the Government is obtaining.

We believe the above actions, if effectively carried out, should help insure that only costs meeting the criteria of Government regulations will be incurred by contractors and reimbursed by Federal agencies.

#### AGENCY COMMENTS

##### Federal Energy Administration and the Defense Contract Audit Agency

FEA and the audit agency concurred with our conclusions and recommendations. (See apps. III and IV.) FEA also indicated that it would make payment to the Council upon issuance of our final report.

#### CONTRACTOR COMMENTS

##### The Advertising Council, Inc. and Cunningham & Walsh, Inc.

The Council and advertising agency commented (see apps. V and VI) that our report accurately presented the facts.

Both contractors pointed out that there were extenuating circumstances--union agreements and urgent demands--(see p. 11) that should be considered when assessing the use of first class travel. While we do not dispute these facts, it is Government policy that first class accommodations can only be used when coach is not reasonably available.

The contractors also indicated that, in their opinion, prior approval was obtained before the \$3,296 of costs for 2 additional days of filming were incurred. We believe the documentation regarding prior approval is not clear (see p. 15).

NINETY-FOURTH CONGRESS

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 HOUSE OFFICE BUILDING ANNEX NO. 2  
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CONGRESS OF THE UNITED STATES  
 HOUSE OF REPRESENTATIVES  
 COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE  
 SUBCOMMITTEE ON ENERGY AND POWER  
 WASHINGTON, D.C. 20515

October 18, 1976

The Honorable Elmer B. Staats  
 Comptroller General of the United States  
 General Accounting Office  
 441 G Street, N. W.  
 Washington, D. C. 20548

Dear Mr. Staats:

A recently completed investigation by the Subcommittee on Energy and Power has revealed evidence of fraudulent claims against the government in a Federal Energy Administration contract with the Advertising Council, Inc., for a public service advertising campaign.

Under a \$602,000 contract designed to promote energy conservation, both the Ad Council and its subcontractors have billed the government repeatedly for a variety of unwarranted expenses. These include dinners and lunches for ad agency personnel, liquor, tuxedo rentals, cleaning, drugs and unauthorized travel--such as side trips for executives to Disneyland while they were on business in Los Angeles. Evidence also points to at least one instance of double billing and billing for work not directly related to FEA business.

Terms of the Ad Council's contract do not allow FEA to audit the expenses of subcontractors, who submitted most of the questionable claims. The only agency with authority to perform a complete audit of the subcontractors is the General Accounting Office. I am therefore requesting that you make a comprehensive GAO audit of the FEA's contract with the Advertising Council. And, because of the implications raised by the questionable claims in this contract, I would like you to audit all other Executive Branch contracts with the Advertising Council as well. This includes, but should not be limited to, the Agriculture Department's Smokey the Bear campaign, the Commerce Department's program to instill appreciation of the American free enterprise system and the White House's 1974 WII (Whip Inflation Now) campaign.

Your audit of the FEA contract should seek to establish the following:

- substantiation of all Advertising Council and subcontractors' major expenses, which were often submitted in amounts as large as \$7,000 without any detailed justification to or advance approval from FEA;

THIS STATIONERY PRINTED ON PAPER MADE WITH RECYCLED FIBERS



The Honorable Elmer B. Staats  
October 18, 1976  
Page Two

--justification--or lack of it--for various questionable expenses, such as a drug bill, a \$203 dinner bill for advertising executives, liquor bills, cleaning bills and the like;

--an explanation of why it was necessary to contract with the Advertising Council on a sole-source basis rather than by competitive procurement;

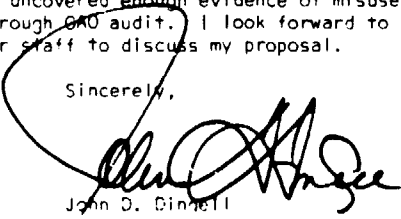
--determination of what steps can be taken in the future to ensure tighter government control over Advertising Council expenses. In this regard, no out-of-town trip or other major expense should be undertaken without approval of the contracting agency.

Similar procedures, as necessary, should be applied to other agency contracts.

At present, some \$24,000 in outstanding claims still has not been paid by FEA because of disputes over their propriety. I have asked FEA to withhold payment of these claims until the GAO audit is completed.

I believe our inquiry has uncovered enough evidence of misuse of Federal funds to warrant a thorough GAO audit. I look forward to an early meeting with you and your staff to discuss my proposal.

Sincerely,



John D. Dinnell  
Chairman

JDD:Pdt

GOVERNMENT CONTRACTS WITH THE ADVERTISING COUNCIL, INC.AS OF JANUARY 1977

<u>Agency</u>	<u>Program</u>	<u>Contract amount</u>
Action	Action	\$ 178,838
American Revolution Bicentennial Administration	Register and Vote	92,884
Department of Transportation	Carpooling	160,000
Defense Supply Service, Washington	Employer Support of Guard and Reserve	483,222
Department of Commerce	Export Development	100,000
Department of Health, Education, and Welfare	Food, Nutrition and Health	49,625
Department of Agriculture	Prevent Forest Fires ("Smokey Bear")	272,500
National Institutes of Health	High Blood Pressure	264,685
Department of Health, Education, and Welfare	Swine Flu	89,214
Department of Health, Education, and Welfare	Technical Education Training	250,000
Treasury Department	U.S. Savings Bonds	183,812
National Center for Productivity and Quality of Working Life	Productivity	114,355
Department of Transportation	55 MPH	<u>260,000</u>
TOTAL		<u><u>\$2,499,135</u></u>



## FEDERAL ENERGY ADMINISTRATION

WASHINGTON, DC 20461

JUN 20 1977

OFFICE OF THE ADMINISTRATOR

Mr. Monte Canfield, Jr.  
Director  
Energy and Minerals Division  
United States General Accounting Office  
Washington, D.C. 20548

Subject: Contract # 14-01-0001-1613

Dear Mr. Canfield:

Thank you for affording the Federal Energy Administration (FEA) the opportunity to review and comment upon your draft report, coded 950377, covering the subject contract. Please be advised that FEA concurs with all conclusions and recommendations contained therein. Two minor errors were noted in the body of the report and are indicated below:

(1) On page (ii), at the end of the second paragraph, it is stated that, "The disagreement could not be resolved and the contract was terminated." No termination action, per se, was taken on subject contract; rather, as the report correctly indicates on page 12, the contract was allowed to expire. [See GAO note p. 28.]

(2) The report states, in discussing the "vulnerability" theme, that discussions on this approach were first held in August, 1974. FEA believes the correct date for onset of discussions to be December, 1974.

In addition to reporting on its audit of the subject contract, the General Accounting Office (GAO) has addressed the general subject of Government advertising efforts, and has drawn several conclusions with regard to the various methods available to Government agencies in pursuing advertising campaigns. Among these conclusions are two with which FEA feels should be refined.

(1) On page 21 of the report, GAO states that it is more expensive to pursue an advertising campaign through a "Paid Advertising Agency" than obtaining these services through the Advertising Council. While it is true that if the same agency were used under both methods, given identical circumstances and time-frame, procurement through the Advertising Council would be less expensive; [See GAO note p. 28.]

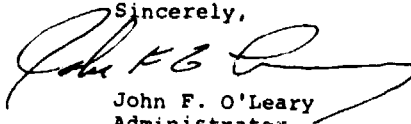
- 2 -

there is some reason to believe that a paid advertising agency, competitively selected, might create and pursue to fruition an advertising campaign for a similar, or lesser amount than the Advertising Council. Liaison on Advertising Council work can be cumbersome and time-consuming, as is demonstrated in the case of the subject contract, and no motivating factor exists to control incurrence of costs. Moreover, it is difficult, if not impossible, to assign a cost value to the creativity and impact of any given advertising campaign. If the campaign is successful, the monies have been well spent; if unsuccessful, little of value has been received.

(2) The report states that, "...it is extremely difficult for an advertising agency to obtain free media time and space without the [Advertising] Council's endorsement." While it is true that the Advertising Council is the primary vehicle for obtaining free public service time from the media, the difficulty (or lack thereof) of an individual advertising agency in obtaining free media time and space is directly proportional to its size and stature in the advertising industry. Difficulty may or may not be experienced in varying degrees dependent on which specific agency makes the request.

With regard to the GAO recommendation that FEA reimburse the Advertising Council in the amount of \$14,401, assurances were made by the former Administrator of FEA, Mr. Frank Zarb, to Congressman John Dingell, that no further payments would be made to the Advertising Council until completion of the GAO review. FEA will make payment to the Advertising Council as recommended upon issuance of the final GAO report, or upon release by Congressman Dingell, should such release be given in advance of issuance of the GAO report. In the meantime, all necessary steps will be taken to negotiate a settlement of the unresolved amount, as GAO has suggested.

Sincerely,



John F. O'Leary  
Administrator

GAO note: Page references in this appendix refer to the draft report and do not necessarily agree with the page numbers in final report.



IN REPLY REFER TO

**DEFENSE CONTRACT AUDIT AGENCY**  
CAMERON STATION  
ALEXANDRIA, VIRGINIA 22314

OMD

20 JUN 1977

Mr. R. W. Gutmann  
Director, Procurement and Systems  
Acquisition Division  
U.S. General Accounting Office  
Washington, DC 20548

Dear Mr. Gutmann:

This is in reply to your letter of 18 May 1977 requesting comments on your draft report on "Federal Energy Administration's (FEA) Contract with the Advertising Council, Inc., For a Public Relations Campaign on the Need to Save Energy," OSD Case #4626, Code 950377.

We were pleased to note that you found our audits sufficient and relied on our findings and conclusions. We concur with your recommendations.

We noted that you reported \$23,986 withheld by the Government. Our audit disclosed an additional amount of \$1,673 on voucher no. 16 that was withheld by FEA for further review. The contractor has not resubmitted the claim since they were subsequently informed by FEA that the costs claimed were satisfactory and payment would follow. The \$1,673 remains outstanding, therefore the total withheld by the Government should be \$25,659.

We appreciate this opportunity to comment on your draft report.

Sincerely,

DARRELL A. OYER  
Acting Assistant Director  
Operations and Professional Development



Robert P. Keim  
President

## The Advertising Council Inc

825 Third Avenue  
New York, N.Y. 10022  
212-758-0400



1200  
Washington  
Arlington

June 16, 1977

Mr. R. W. Gutman  
Director  
United States General  
Accounting Office  
441 G Street, N.W.  
Washington, D. C. 20548

Dear Mr. Gutman:

This is in response to your letter of May 18, concerning the preliminary draft of the GAO report to the Chairman, Subcommittee on Energy and Power, House Committee on Interstate and Foreign Commerce, which you submitted for our review.

At the very onset we would like to say that we appreciate this opportunity. On the whole we found the report to be balanced and objective. It is our hope that our comments, which follow, will only add to the already commendable clarity and accuracy of this important document. For ease of interpretation we are offering them on a page-by-page basis.

Page i. "The Advertising Council was requested to conduct the campaign." We believe that it would be helpful to note that this request was made by the then-Federal Energy Office and The White House, and that the contract was let by the US Department of the Interior. [See GAO note p. 34.]

Page ii. "The Federal Energy Administration and the Council disagreed over the public acceptability of such messages." This is not precisely the case. The Council's primary concern was that the messages which were being proposed by the Federal Energy Administration were in violation of the Council's criteria for campaign acceptance. Specifically, these criteria hold that any advertising under Council auspices shall be "non-partisan politically, and not designed to influence legislation." [See GAO note p. 34.]

Page 1. We suggest that the four points on which the chairman asked your audit be set off by quotation marks and that they be referenced to his letter of October 18, 1976. It is also important to note that "a \$203 dinner bill for advertising executives, liquor bills and the like" was in fact not a single bill but the total of

THE ADVERTISING COUNCIL IS THE NON-PROFIT ORGANIZATION THROUGH WHICH AMERICAN BUSINESS, ADVERTISING AND THE COMMUNICATIONS INDUSTRIES CONTRIBUTE THEIR SKILLS AND RESOURCES TO PROMOTE VOLUNTARY CITIZEN ACTIONS IN SOLVING NATIONAL PROBLEMS.

Mr. R. W. Gutman  
June 16, 1977  
Page Two

The Advertising Council Inc

a number of small, daily, legitimate out-of-pocket expenses on the part of volunteer advertising agency personnel while on travel in connection with the shooting of FEA-authorized TV-film footage and had been incurred in accordance with prevailing industry standards. [See GAO note p. 34.]

Page 3. "The Public Policy Committee . . . review the acceptability of materials to be used in the campaigns." While this is sometimes true, the primary function of the Committee is to review and pass on requests for Council assistance.

"The Council also acts as a 'buffer' between the many public service organizations soliciting free time and space from the media." We believe that the word "buffer" is possibly too strong a term, inasmuch as there is nothing in the Council methodology that prevents or prohibits public service organizations from approaching the media direct. It is true that the media do rely on the Council logo as their assurance that a campaign meets criteria which will insure that it is "of sufficient seriousness and public importance to warrant donations of space or time by national or local media. [See GAO note p. 34.]

Page 6. "This person is generally a chief executive . . ." The correct term is "chief marketing executive." [See GAO note p. 34.]

Page 7. "Council officials told us that the ad agencies volunteer their services free because such efforts . . . help the agency obtain commercial clients." While it is true that volunteer advertising agencies do sometimes exhibit their Council-related work to prospective clients, it is done so within the context of demonstrating their commitment to their social obligations. [See GAO note p. 34.]

Page 8. "The Government, therefore, in October 1973, requested the Council to conduct a campaign of public service advertising on the need for energy conservation." It would enhance the accuracy of this statement if the phrase, "and to elicit public cooperation" were added to it. [See GAO note p. 34.]

Page 14. Reference is made to "filming a television commercial." This should be more properly called "a public service announcement." [See GAO note p. 34.]

Page 15. Reference is made to an item of \$203 "claimed for a film screening." In point of fact, this total refers to cumulative hourly charges for projection room personnel over an extended period of time. These people work on contract and are not on the payroll of the volunteer advertising agency, which does not charge for its own personnel's time. At a meeting on June 10, 1977, at Council headquarters in New York, true

Mr. R. W. Gutman  
June 16, 1977  
Page Three

The Advertising Council inc

copies of actual time-charge transcripts provided by Cunningham & Walsh, the volunteer advertising agency on the FEA campaign, in the amount of \$178.14 were delivered to Mr. Tom Dorney of GAO. C & W personnel indicated that they would attempt to provide documentation on the remaining \$24.86. [See GAO note p. 34.]

Reference is also made to \$1,459 "claimed for hotel lodgings" and to the fact that Council personnel were attempting to obtain copies of original hotel bills.

On June 15, 1977, the Council provided true copies of film crew hotel invoices as supplied by the Watergate Hotel in Washington, D. C., to Mr. Dorney of GAO. It should be noted that the expenses in question also covered food and telephone expense. Cunningham & Walsh, the volunteer advertising agency, is also attempting to obtain similar documentation from the Fairmont Hotel in San Francisco for film crew expenses incurred while at that location. [See GAO note p. 34.]

Page 16. Reference is made to certain expense items totaling \$555.56. The impression is conveyed that these items were incurred at one time and at one place, whereas they were incurred over a period of nearly a year by five different volunteer advertising agency personnel in connection with their normal campaign responsibilities and in accordance with generally prevailing industry practice. The references to "drinks" do not necessarily refer to alcoholic beverages.

The reference to a "tuxedo rental" refers to the attendance at the Advertising Council Annual Dinner of 1974 by the creative director of the volunteer advertising agency in connection with FEA campaign matters. His presence would not have been required otherwise.

Reference to "valet" services reflects the need for such service by a member of the volunteer advertising agency's campaign task force while on travel in connection with campaign-related activities. A separate reference to "cleaning" covers similar expense in similar context.

The "medicine" referred to was for a headache remedy required by a member of the volunteer task force and was billed because he possessed the required dosage in his medicine cabinet at home and felt that to purchase same while on travel was a legitimate added expense he would not otherwise have incurred. [See GAO note p. 34.]



Mr. R. W. Gutman  
June 16, 1977  
Page Four

The Advertising Council Inc

Page 17. It is noted that of some \$556 in itemized expense items, some \$290 "exceeds Government allowances." In determining this fact, reference is made to the terms of Section 1-15.201-3 of Federal Procurement Regulations, which describes the limits of "reasonable" vendor expense. It is urged that in the interpretation of this regulation, consideration be given to the fact that the volunteer advertising agency rendering the incurred out-of-pocket expenses, performed its services on a non-profit basis, and that no fees, markups or commissions were added, billed or paid. Conversely, the "subcontractor", or volunteer advertising agency, estimates that it has incurred recorded manpower time charges in excess of \$250,000 against this project, none of which was billed to the Government. [See GAO note p. 34.]

Page 18. With regard to some \$2,616 "erroneously charged to the FEA contract," this amount has been properly rebilled to the U. S. Department of Commerce and the Council has been reimbursed.

Concerning the \$290 "that exceeded Government allowances," we refer you to our comments pertaining to page 17.

With respect to the item in the amount of \$3,296 for "labor and equipment rental" which "should be assumed by the contractor," the Council on June 10, 1977, provided Mr. Dorney of GAO with additional documentation in the form of a signed estimate which demonstrated that prior approval for the additional expense in question had in fact been given by the then-project officer, Mr. Bart McGarry. [See GAO note p. 34.]

Page 19. Our comments concerning the \$203 item for "a film screening" are covered under remarks pertaining to page 15.

An item of \$1,720 is listed as "the difference between first class and coach air fare," and it is mentioned that "the contractors did have a rationale for flying first class." We believe that the record should carry this rationale; that is, that 1) a military aircraft was originally to have been provided through the facilities of the FEA project officer's office; 2) that this aircraft did not materialize and a last-minute switch to commercial air transport was necessary; and 3) that the contract requirements of International Alliance of Theatrical Stage Employees and Moving Picture Machine Operators of the United States and Canada, AFL-CIO, as well as those of the Directors Guild of America, specifically require that their members be provided with first class accommodations on all travel to and from locations assignments.

Mr. R. W. Gutman  
June 16, 1977  
Page Five

The Advertising Council Inc

The reference to \$1,459 "for hotel lodgings" is discussed under our comments pertaining to page 15. Partial documentation has been provided, and additional documentation is forthcoming.

[See GAO note below.]

Page 20. Under the heading, "PUBLIC SERVICE ADVERTISING THROUGH THE COUNCIL" the advantages of dealing through the Council should include the fact that in addition to cost savings and media acceptability, the Council offers the professional expertise of the volunteer coordinator (usually a chief marketing officer with a major national advertiser) and a major volunteer advertising agency of national stature. Council staff expertise is also contributed. [See GAO note below.]

Page 24. It is indicated that the Council's contract with the U. S. Department of Transportation had been cancelled. While DOT did cancel its advertising contracts with other sources, its relationship with the Council was not affected.

[See GAO note below.]

Page 26. Here again, the reference to a cancellation of the Council's contract with the U. S. Department of Transportation should be deleted, as this contract remains in force.

[See GAO note below.]

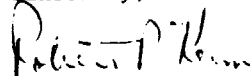
Page 27. Reference is made to FEA's subsequent contract with Grey Advertising. This contract has since been cancelled.

[See GAO note below.]

Page 28. The discussion of lack of familiarity with Federal Procurement Regulations on the part of Cunningham & Walsh personnel as a mitigating factor in the incursion of certain out-of-pocket expense should also include recognition of the fact that much of the work carried out under this contract was executed in a crisis environment precipitated by the Arab Oil Embargo and under extremely urgent demands from White House and FEO/FEA personnel in the months that followed. This frequently occasioned the need to execute the development of the vital conservation messages required at all possible speed without the opportunity to examine possibly less costly alternatives. It should be noted that volunteer advertising agency personnel devoted Saturdays and holidays such as Thanksgiving, Christmas and New Year's Day to this effort at no cost whatsoever to the Government for the manpower involved. [See GAO note below.]

We believe that the foregoing comments are self-explanatory. However, please do not hesitate to call on us if you have any questions. In the meantime, please be assured once again that we appreciate this opportunity to enter our comments in the record.

Sincerely,



RFK/k1

GAO note: Page references in this appendix refer to the draft report and do not necessarily agree with the page numbers in final report.

**Cunningham & Walsh Inc.**

Vice President

July 8, 1977

Mr. R. W. Gutman  
Director  
United States General  
Accounting Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. Gutman:

Thank you for the opportunity to comment on the GAO draft proposed report on the Federal Energy Administration's contract with The Advertising Council, Inc. We regret the delay in responding however, we were awaiting receipt of copies of certain hotel bills which were discussed with Mr. Thomas Dorney of the GAO at our June 10 meeting.

Cunningham and Walsh believes that the draft report is essentially accurate as concerns most of the pertinent facts covering our involvement as the volunteer advertising agency on this project. It is our opinion that the report would more accurately fulfill its intended purpose if it would directly address the four points raised by Representative Dingle. Specifically point two (Pg. 1) where he questions a single \$203. dinner bill for advertising executives as well as bills for drugs, liquor, and the like. While the report adequately explains the GAO findings on these items it is important to point out that these costs are not single items but represent a total of many individual items over the entire contract period of several years. [See GAO note p. 37.]

It is also our opinion that the phrase on page 7 which refers to advertising agencies volunteering to work on Ad Council projects because such work "help(s) the agency obtain commercial clients" should be deleted. We feel that this insinuation casts unfair aspersions on the motives of all volunteer advertising agencies involved in public service campaigns. Cunningham and Walsh worked as a member of a community contributing skills and resources to promote voluntary public action in helping to solve a national problem..energy conservation. There are no other motives. Projects of this nature are extremely costly to an agency and to date there is still monies due us from the Ad Council. [See GAO note p. 37.]

To specifically reply to the \$6,678. total of unallowed or unresolved costs as of April 28, 1977 we offer the following information in order to obtain the GAO's allowance of these items.

On pages 15 and 19 of the report the \$203. reported for film screenings represents a direct out-of-pocket expense to Cunningham and Walsh and once again covers a longer period of time not just the sequence shot in Disneyland. We have provided the Ad Council and Mr. Dorney with back up invoices covering these charges. Hopefully this item should now be considered as fully justified by GAO. [See GAO note p. 37.]

The Ad Council had previously provided copies of hotel receipts for the Watergate Hotel in Washington amounting to \$516.01 of the \$1459.22 questioned in the report. Our San Francisco office has been able to obtain legible copies of Fairmont Hotel receipts amounting to \$943.21 which represents the balance of the questioned charges. These copies are enclosed for your review. Presumably these costs can also be considered as resolved.

The additional expense of \$3,296. for labor and equipment was explained to, documented and approved by Mr. Bart McGarry, the project officer, prior to the commencement of photography. Mr. Dorney was given copies of correspondence confirming these facts on June 10.

Finally there is the question of the first class air fare costs. Even though we are now aware of the Government's policy specifying coach air fare we believe that there are extenuating circumstances which we would like to have taken into consideration.


There was always a tremendous pressure put on Cunningham and Walsh to perform on an urgent and immediate basis throughout the entire contract period. Our creative and production work was always on a priority completion basis as if it were a wartime effort. Demands were frequent and at times excessive. Many things were initiated without proper reflection on our own established procedures and policies not to mention stated Government policies. The first class air travel was one of these situations. Additionally, since the production company and acting talent were contracted by C&W it was incumbent upon us to follow all prescribed industry union agreements to which we are a signatory. All of these union agreements specify first class air travel for their membership so there was never an alternative for us to consider. It seems unfair that the GAO disallow these costs on the basis of prescribed Government policy without considering these realities. We respectfully request that these costs be reviewed in the light of the circumstances described above and approved for payment to the Ad Council.

We are in agreement with the comments previously submitted to you by the Advertising Council in their letter of June 16, 1977.

We are anxious to have this matter resolved and are hopeful that the publication of the facts will correct some of the misconceptions about Cunningham & Walsh, and the Council which were conveyed to the public in Representative Dingle's press releases.

Thank you again for the opportunity to give you our comments. If you have any further questions please do not hesitate to call me.

Very truly yours,

  
Donald J. Wilson  
Administrator of  
Commercial Production

cc: C. Nichols  
H. Malfa  
C. Rogers  
D. Dowd  
R. Keim - Ad Council  
C. Harris - Ad Council

DJW/lm  
Enc.

**GAO note: Page references in this appendix refer to the draft report and do not necessarily agree with the page numbers in final report.**