

---

**Office of the Inspector General  
Corporation for National and Community Service**

**Audit of  
Corporation for National and Community Service  
Contracts No. 93-743-1005 and No. 96-743-1008  
With Ogilvy Adams & Rinehart**

**Report Number 99-07  
May 12, 1999**

*Prepared by:*

Cotton & Company, LLP  
333 North Fairfax Street, Suite 401  
Alexandria, Virginia 22314

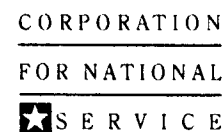
Under CNS OIG MOU # 94-046-1027  
With the Department of State  
Contract # S-OPRAQ-94C-0468-20

---

**This report was issued to Corporation management on July 22, 1999. Under the laws and regulations governing audit follow up, the Corporation must make final management decisions on the report's findings and recommendations no later than January 18, 2000, and complete its corrective actions by July 22, 2000. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.**

---

**Office of the Inspector General  
Corporation for National and Community Service**



**Audit of Corporation for National and Community Service  
Contracts No. 93-743-1005 and 96-743-1008  
With Oglivy Adams & Rinehart  
(OIG Report Number 99-07)**

Cotton & Company, LLP, under contract to the Office of the Inspector General, audited the amounts claimed by Oglivy Adams & Rinehart under Contracts No. 93-743-1005 and 96-743-1008. The audit covered the costs claimed during the period from October 1, 1993 to September 30, 1996 under Contract No. 93-743-1005, and from October 1, 1996 to September 29, 1999 under Contract No. 96-743-1008 (\$4,842,296 and \$2,062,547, respectively). The audit included tests to determine whether costs reported to the Corporation were documented and allowable in accordance with the terms and conditions of the respective contract. We reviewed the report and work papers supporting its conclusions and agree with the findings and recommendations presented.

The auditors found that Oglivy Adams & Rinehart underbilled the Corporation by \$17,042, net of questioned costs, under the two contracts. The under billings resulted from Oglivy's use of provisional overhead rates that were substantially less than their actual rates. The auditors also reported that Oglivy Adams & Rinehart:

- claimed direct labor, travel, and other direct costs that were unallowable and unallocable under the contract terms and conditions and the Federal Acquisition Regulation;
- did not maintain an accounting system that could identify direct and indirect labor costs or allowable and unallowable indirect expenses in accordance with the Federal Acquisition Regulation;
- billed the Corporation for some types of costs as "standard costs" but did not document in writing the calculation of the standard costs or support the reasonableness of the rate used by periodic comparisons to actual costs; and
- did not have adequate timekeeping procedures.

Additional information on the under billings as well as the compliance and internal control findings are discussed in detail in this report.

The Corporation's response to a draft of this report is included as Appendix A. In its response, the Corporation stated that it had reviewed the draft but did not have specific comments at this time. Oglivy Adams & Rinehart generally agreed with the findings and most of the recommendations and stated that it had implemented several procedures to strengthen its internal controls. Oglivy's response is included as Appendix B.

**OFFICE OF INSPECTOR GENERAL  
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE  
AUDIT REPORT NO. 99-07**

**AUDIT OF  
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE  
CONTRACTS NO. 93-743-1005 AND NO. 96-743-1008 WITH  
OGILVY ADAMS & RINEHART**

**CONTENTS**

	<b>Page</b>
Transmittal Letter	1
Results in Brief	2
Independent Auditors' Opinion	4
Schedule of Contract Costs	6
Independent Auditors' Report on Compliance	23
Independent Auditors' Report on Internal Control Structure	25
Appendixes	
The Corporation's Response	A
Ogilvy Adams & Rinehart's Response	B

# COTTON & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, LLP

333 NORTH FAIRFAX STREET • SUITE 401 • ALEXANDRIA, VIRGINIA 22314

DAVID L. COTTON, CPA, CFE  
CHARLES HAYWARD, CPA, CFE

MICHAEL W. GILLSPIE, CPA, CFE  
CATHERINE L. NOCERA, CPA

ELLEN P. REED, CPA  
MATTHEW H. JOHNSON, CPA

May 12, 1999

## Inspector General Corporation for National and Community Service

We audited costs claimed by Ogilvy Adams & Rinehart<sup>1</sup> to the Corporation for National and Community Service under Contracts No. 93-743-1005 and No. 96-743-1008 for the period from October 1, 1993, through December 31, 1998. The Corporation awarded Contract No. 93-743-1005 for the period October 1, 1993, to September 30, 1996, and Contract No. 96-743-1008 for the period October 1, 1996, to September 29, 1999. Both were cost-plus-fixed-fee contracts. Under the first contract, Ogilvy Adams & Rinehart (Ogilvy) planned and implemented a marketing campaign designed to strengthen public awareness of the Corporation and its programs; the fixed fee was \$167,875. Under the second contract, Ogilvy helped the Corporation refine and implement changes to an existing marketing campaign designed to strengthen public awareness of national service and the Corporation's primary programs; the fixed fee was \$95,405.

The audit objectives were to determine if (1) costs claimed are allowable and were incurred for actual contract effort, adequately supported, and charged in accordance with Ogilvy's cost accounting system, contract terms, applicable laws and regulations including the *Federal Acquisition Regulation*, and applicable cost accounting standards; (2) Ogilvy complied with contract terms and conditions; and (3) Ogilvy's accounting system and system of internal accounting control were adequate.

We performed the audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the amounts claimed against the contract, as presented in the Schedule of Contract Costs, are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by the auditee, as well as evaluating the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

---

<sup>1</sup> On January 27, 1998, Ogilvy amended its Certificate of Incorporation to change its name to Ogilvy Public Relations Worldwide, Inc. The amendment accomplished a change of name only; all rights and obligations of the Government and Ogilvy were unaffected by the change.

## ***RESULTS IN BRIEF***

### **Costs Claimed**

We determined that Ogilvy underbilled the Corporation by \$17,042 (net) under the two contracts as follows:

Net Questioned Costs - Contract No. 93-743-1005	\$ (4,054)
Net Underbilling - Contract No. 96-743-1008	<u>21,096</u>
Net Underbilling	<u>\$17,042</u>

We questioned \$4,054 (net), of the \$4,694,372 claimed under Contract No. 93-743-1005. The questioned amount includes \$65,414 of labor costs claimed in excess of actual labor costs, \$5,138 of video production and photocopier costs claimed in excess of actual costs, a \$6,237 overpayment to a vendor, and \$501 of unallowable travel costs. However, we determined that Ogilvy had underbilled overhead by \$73,236 by using a provisional billing rate of 118 percent for all contract years, in lieu of actual overhead rates that ranged from 150.60 percent to 196.99 percent.

We determined that Ogilvy underbilled a net amount of \$21,096 under Contract No. 96-743-1008. This amount includes questioned costs of \$48,110 because Ogilvy claimed labor costs in excess of actual labor costs, \$14,001 of video production and photocopier costs claimed in excess of actual costs, and \$762 of unallowable travel costs. However, we determined that Ogilvy had underbilled overhead by \$83,969, by using a provisional billing rate of 118 percent for all contract years, in lieu of actual overhead rates that ranged from 169.77 percent to 196.99 percent.

### **Compliance**

The results of our tests of compliance regarding claimed costs disclosed that Ogilvy claimed direct labor, travel, and other direct costs that were unallowable and unallocable under the contract terms and conditions and the *Federal Acquisition Regulation*, as discussed above and in detail in the Notes to the Schedule of Contract Costs.

### **Accounting and Internal Control Systems**

We noted three matters involving Ogilvy's internal control structure and its operations that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants. We believe that all three matters are material weaknesses.

First, Ogilvy's accounting system could not identify direct and indirect labor costs or allowable and unallowable indirect expenses in accordance with the *Federal Acquisition Regulation*. Ogilvy only records total labor costs in its accounting system; it does not record or identify direct or indirect labor costs. We also noted that indirect expenses claimed included unallowable alcohol, marketing, entertainment, contribution, and advertising costs.

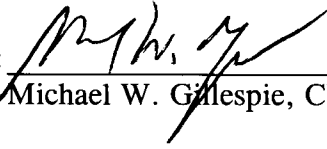
Second, Ogilvy billed the Corporation for some types of costs as "standard costs." It did not document in writing the calculation of the standard costs or support the reasonableness of the rates used by periodic comparisons to actual costs.

Finally, Ogilvy does not have adequate timekeeping procedures. Ogilvy employees did not sign their timesheets; supervisors did not sign all timesheets; and employees and supervisors did not initial alterations to timesheets. Sound internal controls dictate that timesheets must be signed by employees and supervisors and changes to timesheets must be marked through and initialed by employees and supervisors.

### **Response to Draft Report**

The Corporation's response to the draft report is included as Appendix A. In its response, the Corporation stated that it reviewed the draft report, but did not have specific comments at this time. In its response, Ogilvy agreed with most of the findings. Ogilvy's response is included as Appendix B. Ogilvy responses to specific findings are included after each finding, as appropriate.

COTTON & COMPANY, LLP

By:   
\_\_\_\_\_  
Michael W. Gillespie, CPA

# COTTON & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, LLP

333 NORTH FAIRFAX STREET • SUITE 401 • ALEXANDRIA, VIRGINIA 22314

DAVID L. COTTON, CPA, CFE  
CHARLES HAYWARD, CPA, CFE

MICHAEL W. GILLESPIE, CPA, CFE  
CATHERINE L. NOCFRA, CPA

ELLEN P. REED, CPA  
MATTHEW H. JOHNSON, CPA

May 12, 1999

Inspector General  
Corporation for National and Community Service

## INDEPENDENT AUDITORS' OPINION

We audited costs claimed by Ogilvy Adams & Rinehart to the Corporation for National and Community Service under Contracts No. 93-743-1005 and No. 96-743-1008 for the period from October 1, 1993, through December 31, 1998. The costs claimed are summarized in the Schedule of Contract Costs. Costs claimed summarized in the schedule are the responsibility of Ogilvy's management. Our responsibility is to express an opinion on costs shown in the schedule based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial schedule. It also includes assessing accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion on costs claimed.

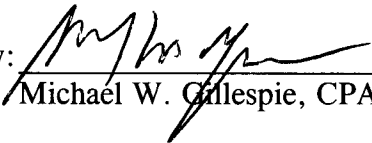
The Schedule of Contract Costs is intended to present allowable costs incurred under the contracts in accordance with the *Federal Acquisition Regulation* and contract terms and conditions. Therefore, it is not intended to be a complete presentation of Ogilvy's revenues and expenses.

In our opinion, except for questioned costs in the Schedule of Contract Costs, the financial schedule referred to above presents fairly, in all material respects, costs claimed by Ogilvy as these costs relate to the contracts for the audit period from October 1, 1993, through December 31, 1998, in conformity with the *Federal Acquisition Regulation* and contract terms and conditions.

In accordance with *Government Auditing Standards*, we have also issued reports dated May 12, 1999, on our consideration of Ogilvy's internal control structure and on its compliance with laws and regulations.

This report is intended for the use of the Inspector General and Corporation management. This report is a matter of public record, and its distribution is not limited.

COTTON & COMPANY, LLP

By:  \_\_\_\_\_  
Michael W. Gillespie, CPA



**FINANCIAL SCHEDULES**

SCHEDULE A

**SCHEDULE OF CONTRACT COSTS**

**Corporation for National and Community Service Contracts With  
Ogilvy Adams & Rinehart  
(Contracts No. 93-743-1005 and No. 96-743-1008)**

**CONTRACT NO. 93-743-1005  
October 1, 1993, through September 30, 1996**

	Claimed Costs	Questioned Costs	Notes
Direct Labor	\$ 423,142	\$65,414	1
Overhead	499,646	(73,236)	2
Travel	34,301	501	5
Other Direct Costs	<u>3,737,283</u>	<u>11,375</u>	3, 4
Total Costs	\$4,694,372	<u>\$ 4,054</u>	
Fee	<u>147,924</u>		
Total	<u>\$4,842,296</u>		

**Contract No. 96-743-1008  
October 1, 1996, through December 31, 1998**

	Claimed Costs	Questioned Costs	Note
Direct Labor	\$ 303,463	\$ 48,110	1
Overhead	358,329	(83,969)	2
Travel	26,403	762	5
Other Direct Costs	<u>1,288,838</u>	<u>14,001</u>	3
Total Costs	\$1,977,033	<u>\$(21,096)</u>	
Fee	<u>85,514</u>		
Total	<u>\$2,062,547</u>		

**NOTES TO SCHEDULE OF CONTRACT COSTS**

1. Ogilvy billed direct labor costs based on a combination of standard labor rates, which also included an unsupported 21.4 percent allowance for fringe benefits, and standard monthly labor hours. Ogilvy was unable to support the reasonableness of the standard rates. Accordingly, we recalculated direct labor costs based on each employee's actual pay rate and actual hours recorded on employee timesheets and questioned the difference between labor costs billed and actual labor costs. As a result, we questioned \$65,414 under Contract No. 93-743-1005 and \$48,110 under Contract No. 96-743-1008.
  
2. Ogilvy was authorized under these cost-plus-fixed-fee contracts to claim and bill overhead at cost. However, Ogilvy billed overhead costs based on a provisional billing rate of 118 percent for all contract years. We applied the overhead rates per audit (Schedules B-1 through B-6) to labor costs per audit and determined that Ogilvy underbilled the contracts as follows:

**CONTRACT NO. 93-743-1005  
October 1, 1993 through September 30, 1996**

<b>Fiscal Year</b>	<b>Labor Costs Per Audit</b>	<b>Rate per Audit</b>	<b>Overhead Costs per Audit</b>	<b>Overhead Costs Claimed</b>	<b>Questioned Overhead Costs</b>
1993	\$ 11,509	196.54%	\$ 22,620	\$ 15,626	\$ (6,994)
1994	245,481	150.60%	369,694	339,181	(30,513)
1995	79,414	174.48%	138,562	114,129	(24,433)
1996	<u>21,324</u>	196.99%	<u>42,006</u>	<u>30,710</u>	<u>(11,296)</u>
<b>Total</b>	<b><u>\$357,728</u></b>		<b><u>\$572,882</u></b>	<b><u>\$499,646</u></b>	<b><u>\$(73,236)</u></b>

**CONTRACT NO. 96-743-1008**  
**October 1, 1996 through December 31, 1998**

Fiscal Year	Labor Costs Per Audit	Rate per Audit	Overhead Costs per Audit	Overhead Costs Claimed	Questioned Overhead Costs
1996	\$ 26,668	196.99%	\$ 52,533	\$ 39,034	\$(13,499)
1997	128,249	169.77%	217,728	179,855	(37,873)
1998	<u>100,436</u>	171.29%	<u>172,037</u>	<u>139,440</u>	<u>(32,597)</u>
Total	<u>\$255,353</u>		<u>\$442,298</u>	<u>\$358,329</u>	<u>\$(83,969)</u>

3. Ogilvy billed the Corporation for in-house video production and photocopies at “standard rates.” Ogilvy’s vice president of finance stated that Ogilvy had no documentation for actual rates, but asserted that its billing rates for in-house video production were lower than outside vendors, and billing rates for photocopies were charged at a lower rate than what it charged commercial clients. *Federal Acquisition Regulation* (FAR) 31.201-1, Composition of Total Costs, states that costs include standard costs properly adjusted for applicable variances. Cost Accounting Standard (CAS) 407 provides guidance on the use of standard cost accounting systems for Government contracts. CAS 407 states that standard costs may be used only when the contractor enters standard costs into the books of account, accounts for standard costs and related variances, and states in writing its practices with regard to the setting and revising of standards and disposition of variances. FAR 31.201-2(d), Determining Allowability, states that the contractor is responsible for appropriately accounting for costs and maintaining adequate supporting documentation.

We recalculated the costs of video production and photocopies based on actual costs recorded and questioned the difference between costs billed and actual costs as follows:

	Contract No. 93-743-1005	Contract No. 96-743-1008
Video reproduction	\$4,790	\$12,314
Photocopies	<u>348</u>	<u>1,687</u>
Total	<u>\$5,138</u>	<u>\$14,001</u>

**Ogilvy Comments.** In its response to the draft report, Ogilvy stated that it would continue to bill for video production and photocopy expenses based on estimated costs. However, it revised its procedures and will now accumulate actual costs and will make adjustments for material variances between actual and estimated costs on an annual basis.

4. Ogilvy billed \$12,474 for work performed by Beach Advertising under Contract No. 93-743-1005. Beach Advertising invoiced for \$12,474; however, Ogilvy only paid Beach half the invoice amount. We questioned the \$6,237 difference.
5. We questioned claimed travel costs of \$501 under Contract No. 93-743-1005 and \$762 under Contract No. 96-743-1008 as follows:
  - a. Ogilvy billed \$501 under Contract No. 93-743-1005 and \$680 under Contract No. 96-743-1008 for meals consumed by employees who were working in the Washington, DC, area. Many of the meals were identified as “working lunches.” Contract Section H.3 states that reimbursement for travel expenses will be in accordance with the *Federal Travel Regulations* (FTR), which state that meal costs incurred by employees who are not working away from their official duty station are unallowable.
  - b. On two separate occasions, Ogilvy reimbursed employees for travel costs exceeding FTR per diem rates. We questioned \$82 under Contract No. 96-743-1008.

**SCHEDULE B-1**

**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE  
OGILVY ADAMS & RINEHART  
SCHEDULE OF OVERHEAD COSTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1993**

	Claimed Costs	Questioned Costs	Costs per Audit	Notes
Salaries	\$2,006,222		\$2,006,222	
Employee Social Security Taxes	317,431		317,431	
Pensions	471,248	\$ 23,394	447,854	1
Severance	7,510		7,510	
Staff Recruitment	666		666	
Consultants/Freelance	117,560	99,000	18,560	2
Benefits	168,484		168,484	
Workman's Compensation	12,000		12,000	
Flex Credit Expense	81,826		81,826	
Other, Staff Costs	41,200	6,257	34,943	3
Bonus	79,343		79,343	
Rent and Rates	777,099		777,099	
Building Depreciation	41,870		41,870	
Building Utilities	540		540	
Repair and Renewals	8,176		8,176	
Other, Establishment Costs	215,120	34,206	180,914	4
Travel	17,038	8,986	8,052	5
Staff Training and Welfare	10,270		10,270	
Other, Personnel Costs	972		972	
New Business Costs	313,354	24,741	288,613	6
Advertisement/Promotion	21,276		21,276	
Stationary/Office Materials	56,749		56,749	
Equipment Lease	54,614		54,614	
Computer Costs	1,094		1,094	
Maintenance/Service Agreement	50,355		50,355	
Reproduction	(11,822)		(11,822)	
Furniture and Fixtures Depreciation	108,732		108,732	
Telephone/Facsimile	(32,919)		(32,919)	
Postage	(3,490)		(3,490)	
Other, Office Costs	61,482	566	60,916	7
Legal and Professional	24,612		24,612	
Bank Charges	39		39	
<b>Total Indirect Costs</b>	<u><b>\$5,018,651</b></u>	<u><b>\$197,150</b></u>	<u><b>\$4,821,501</b></u>	
<b>Total Direct Labor</b>	<u><b>\$2,453,205</b></u>		<u><b>\$2,453,205</b></u>	
<b>Overhead Rate</b>	<u><b>204.58%</b></u>		<u><b>196.54%</b></u>	

## NOTES TO SCHEDULE B-1

1. **Pensions.** Claimed costs include 401(k) matching funds and payments for a defined benefit pension plan. Ogilvy claimed between \$323,394 and \$357,292 per year from 1993 and 1998 for the defined benefit pension plan. Amounts claimed were based on an allocation of plan costs between Ogilvy's Washington, DC, office and other Ogilvy offices. Ogilvy was unable to provide documentation supporting the basis for the costs allocated to the Washington, DC, office. Accordingly, we were unable to determine the reasonableness of the costs claimed in accordance with FAR 31.205-6. For the purpose of calculating indirect cost rates we considered \$300,000 each year reasonable. We questioned \$23,394 in 1993.

**Ogilvy Comments.** In its response to the draft report, Ogilvy stated that it was unable to obtain additional information regarding the allocation of pension expense. However, in an effort to resolve this matter it does not disagree with the allocation of \$300,000 per year in pension expense.

2. **Consultants/Freelance.** Ogilvy used consultants for various tasks, but did not have written agreements for all consultants. In addition, we could not determine the allowability of services rendered from consultant invoices. According to FAR 31.205-33, professional and consultant service costs (including retainer fees) must be supported by details of all agreements and actual services performed; invoices or billings submitted by consultants, including sufficient detail as to the time expended and nature of the actual services provided; and consultant work products and related documents, such as trip reports indicating persons visited and subjects discussed, minutes of meetings, and memorandums and reports. We questioned \$99,000 of unsupported consultant costs.
3. **Other, Staff Costs.** Ogilvy claimed \$6,257 for a company Christmas party, which included food and alcoholic beverages. FAR 31.205-51 states that alcoholic beverages are unallowable. Because we could not separately identify the cost of food or alcoholic beverages, we questioned \$6,257.
4. **Other, Establishment Costs.** Ogilvy claimed a \$15,107 tax payment for years prior to 1993. FAR 31.201-4 states that a cost is allocable based on the relative benefits received, and the Corporation received no benefit for expenses incurred prior to 1993. In addition, Ogilvy failed to adjust the amount claimed for other taxes for the \$19,099 difference between estimated and actual amounts paid. We questioned \$34,206.

5. **Travel.** Ogilvy's travel expenses were supported by employee expense vouchers, but most employees did not document the purpose of trips on their expense vouchers. According to FAR 31.205-46, travel costs are allowable only if travel information (date and place of travel, purpose of trip) is documented. We questioned \$8,986 of unsupported travel costs.
  
6. **New Business Costs.** We questioned \$24,741 as follows:
  - a. Claimed costs included entertainment expenses, such as meals with clients and client gifts. FAR 31.205-14 states that costs of amusement, diversions, and social activities, such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable. FAR 31.205-1 also states that gifts used primarily for entertainment, rather than product promotion, are unallowable. We questioned \$11,241.
  
  - b. Ogilvy included consulting expenses in its new business accounts. For the reasons stated in Note 2, above, we questioned these costs. We questioned \$13,500.
  
7. **Other, Office Costs.** Ogilvy claimed \$566 for alcoholic beverages, which are unallowable under FAR 31.205-51. Accordingly, we questioned this amount.



**SCHEDULE B-2**

**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE  
OGILVY ADAMS & RINEHART  
SCHEDULE OF OVERHEAD COSTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1994**

	Claimed Costs	Questioned Costs	Costs per Audit	Notes
Salaries	\$1,883,526		\$1,883,526	
Employee Social Security Taxes	323,281		323,281	
Pensions	473,429	\$ 28,284	445,145	1
Consultants/Freelance	113,745	54,013	59,732	2
Benefits	77,475		77,475	
Workman's Compensation	16,500		16,500	
Flex Credit Expense	75,324		75,324	
Other, Staff Costs	42,301	25,535	16,766	3
Bonus	54,166		54,166	
Rent and Rates	763,820		763,820	
Building Depreciation	16,890		16,890	
Building Utilities	2,376		2,376	
Repair and Renewals	2,198		2,198	
Other, Establishment Costs	19,267	3,927	15,340	4
Travel	16,839	9,897	6,942	5
Staff Training and Welfare	1,322		1,322	
Other, Personnel Costs	1,885		1,885	
New Business Costs	151,835	55,127	96,708	6
Media Placement Fees	581		581	
Advertisement/Promotion	11,247		11,247	
Stationary/Office Materials	62,154		62,154	
Equipment Lease	43,494		43,494	
Computer Costs	13,533		13,533	
Maintenance/Service Agreement	58,357		58,357	
Reproduction	(28,733)		(28,733)	
Furniture and Fixtures Depreciation	67,344		67,344	
Telephone/Facsimile	(56,802)		(56,802)	
Postage	(4,659)		(4,659)	
Other, Office Costs	35,116	383	34,733	7
Legal and Professional	8,860		8,860	
Bank Charges	526		526	
<b>Total Indirect Costs</b>	<u><u>\$4,247,197</u></u>	<u><u>\$177,166</u></u>	<u><u>\$4,070,031</u></u>	
<b>Direct Labor</b>	<u><u>\$2,702,570</u></u>		<u><u>\$2,702,570</u></u>	
<b>Overhead Rate</b>	<u><u>157.15%</u></u>		<u><u>150.60%</u></u>	

## NOTES TO SCHEDULE B-2

1. **Pensions.** We questioned \$28,284 for the reasons stated in Schedule B-1, Note 1.
2. **Consultants/Freelance.** We questioned \$54,013 of unsupported consultant costs for the reasons stated in Schedule B-1, Note 2.
3. **Other, Staff Costs.** Ogilvy claimed costs for alcoholic beverages, client gifts, and contributions. FAR 31.205-51 states that costs of alcoholic beverages are unallowable. FAR 31.205-14 states that costs of amusement, diversions, social activities, such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable. FAR 31.205-8 states that contributions or donations are unallowable. Accordingly, we questioned \$25,535.
4. **Other, Establishment Costs.** Ogilvy based its tax cost on an estimated amount. However its actual tax expense was less than the claimed amount, Ogilvy did not adjust the costs claimed. Accordingly, we questioned \$3,927.
5. **Travel.** We questioned \$9,897 of unsupported travel costs for the reasons stated in Schedule B-1, Note 5.
6. **New Business Costs.** We questioned \$55,127 of consulting and entertainment expenses for the reasons stated in Schedule B-1, Note 6.
7. **Other, Office Costs.** We questioned \$383 claimed for alcoholic beverages for the reason stated in Schedule B-1, Note 7.

**SCHEDULE B-3**

**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE  
OGILVY ADAMS & RINEHART  
SCHEDULE OF OVERHEAD COSTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1995**

	Claimed Costs	Questioned Costs	Costs per Audit	Notes
Salaries	\$2,033,747		\$2,033,747	
Employee Social Security Taxes	326,290		326,290	
Pensions	517,211	\$ 57,166	460,045	1
Staff Recruitment	250		250	
Consultants/Freelance	122,053	8,687	113,366	2
Benefits	210,915		210,915	
Workman's Compensation	36,000		36,000	
Flex Credit Expense	80,363		80,363	
Others, Staff Costs	22,463	2,925	19,538	3
Bonus	269,999		269,999	
Rent and Rates	774,657		774,657	
Building Depreciation	21,265		21,265	
Building Utilities	1,157		1,157	
Repair and Renewals	4,441		4,441	
Other, Establishment Costs	16,771		16,771	
Travel	22,628	7,006	15,622	4
Staff Training and Welfare	8,192		8,192	
Other, Personnel Costs	2,632		2,632	
New Business Costs	206,933	44,784	162,149	5
Media Placement Fees	4,401		4,401	
Advertisement/Promotion	43,297		43,297	
New Business, Other	(150)		(150)	
Stationary/Office Materials	113,415		113,415	
Equipment Lease	16,375		16,375	
Computer Costs	25,358		25,358	
Maintenance/Service Agreement	43,825		43,825	
Reproduction	(51,108)		(51,108)	
Furniture and Fixtures Depreciation	109,828		109,828	
Telephone/Facsimile	(64,532)		(64,532)	
Postage	10,436		10,436	
Other, Office Costs	73,339	444	72,895	6
Legal and Professional	22,644		22,644	
Bank Charges	379		379	
<b>Total Indirect Costs</b>	<u>\$5,025,474</u>	<u>\$121,012</u>	<u>\$4,904,462</u>	
<b>Direct Labor</b>	<u>\$2,810,979</u>		<u>\$2,810,979</u>	
<b>Overhead Rate</b>	<u>178.78%</u>		<u>174.48%</u>	

## NOTES TO SCHEDULE B-3

1. **Pensions.** We questioned \$57,166 for the reasons stated in Schedule B-1, Note 1.
2. **Consultants/Freelance.** We questioned \$8,687 of unsupported consultant costs for the reasons stated in Schedule B-1, Note 2.
3. **Other, Staff Costs.** We questioned \$2,925 of alcoholic beverages and client gifts for the reasons stated in Schedule B-2, Note 3.
4. **Travel.** We questioned \$7,006 of unsupported travel costs for the reasons stated in Schedule B-1, Note 5.
5. **New Business Costs.** We questioned the amount claimed for entertainment and consulting for the reasons stated in Schedule B-1, Note 6. We questioned the amount claimed for contributions for the reasons stated in Schedule B-2, Note 3. We questioned the amount claimed for travel for the reasons stated in Schedule B-1, Note 5. We questioned \$44,784 of claimed costs.
6. **Other, Office Costs.** We questioned \$444 claimed for alcoholic beverages for the reason stated in Schedule B-1, Note 7.

**SCHEDULE B-4**

**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE  
OGILVY ADAMS & RINEHART  
SCHEDULE OF OVERHEAD COSTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996**

	<b>Claimed Costs</b>	<b>Questioned Costs</b>	<b>Costs per Audit</b>	<b>Notes</b>
Salaries	\$2,233,281		\$2,233,281	
Employee Social Security Taxes	321,257		321,257	
Pensions	535,321	\$ 57,293	478,028	1
Consultants/Freelance	99,462	2,546	96,916	2
Benefits	227,274		227,274	
Workman's Compensation	67,539		67,539	
Flex Credit Expense	78,863		78,863	
Other, Staff Cost	28,195	2,849	25,346	3
Bonus	206,800		206,800	
Rent and Rates	773,717		773,717	
Building Depreciation	30,425		30,425	
Building Utilities	1,379		1,379	
Repair and Renewals	885		885	
Other, Establishment Costs	24,008		24,008	
Travel	27,258	8,688	18,570	4
Staff Training and Welfare	16,329		16,329	
Other, Personnel Costs	1,288		1,288	
New Business Costs	248,253	69,543	178,710	5
Advertisement/Promotion	43,370	2,120	41,250	6
New Business, Other	(66)		(66)	
Stationary/Office Materials	95,500		95,500	
Equipment Lease	52,136		52,136	
Computer Costs	9,309		9,309	
Maintenance/Service Agreement	21,232		21,232	
Reproduction	(39,395)		(39,395)	
Furniture and Fixtures Depreciation	115,124		115,124	
Telephone/Facsimile	(9,468)		(9,468)	
Postage	8,785		8,785	
Other, Office Costs	70,347	315	70,032	7
Legal and Professional	25,417		25,417	
Bank Charges	553		553	
<b>Total Indirect Costs</b>	<b><u>\$5,314,378</u></b>	<b><u>\$143,354</u></b>	<b><u>\$5,171,024</u></b>	
<b>Direct Labor</b>	<b><u>\$2,625,019</u></b>		<b><u>\$2,625,019</u></b>	
<b>Overhead Rate</b>	<b><u>202.45%</u></b>		<b><u>196.99%</u></b>	

## NOTES TO SCHEDULE B-4

1. **Pensions.** We questioned \$57,293 for the reasons stated in Schedule B-1, Note 1.
2. **Consultants/Freelance.** We questioned \$2,546 of unsupported consultant costs for the reasons stated in Schedule B-1, Note 2.
3. **Other, Staff Costs.** We questioned \$2,849 of client entertainment and alcoholic beverage costs for the reasons stated in Schedule B-2, Note 3.
4. **Travel.** We questioned \$8,688 of unsupported travel costs for the reasons stated in Schedule B-1, Note 5.
5. **New Business Costs.** We questioned \$69,543 of claimed new business costs as follows.
  - a. We questioned the amount claimed for entertainment and consulting for the reasons stated in Schedule B-1, Note 6. We questioned the amount claimed for travel for the reasons stated in Schedule B-1, Note 5. We questioned \$68,860 of claimed costs.
  - b. Ogilvy claimed \$180 for a listing in the Yellow Pages and \$400 for preparing part of a corporation brochure. FAR 31.205-1 states that all public relations and advertising costs whose primary purpose is to promote the sale of products or services by stimulating interest in a product or product line or by disseminating messages calling favorable attention to the contractor for purposes of enhancing the company image to sell the company's products or services are unallowable.
  - c. Ogilvy claimed \$103 for taxi costs for its president to commute between her home and her office. FAR 31.205-46 states that only travel costs incurred on official company business are allowable. We questioned \$103.
6. **Advertisement/Promotion.** Ogilvy claimed \$2,120 for advertising in the Regional Airline Association's annual report. FAR 31.205-1 states that advertising costs are unallowable. We questioned the amount claimed.
7. **Other, Office Costs.** We questioned \$315 claimed for alcoholic beverages for the reason stated in Schedule B-1, Note 7.

**SCHEDULE B-5**

**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE  
OGILVY ADAMS & RINEHART  
SCHEDULE OF OVERHEAD COSTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997**

	Claimed Costs	Questioned Costs	Costs per Audit	Notes
Salaries	\$2,029,787		\$2,029,787	
Employee Social Security Taxes	333,197		333,197	
Pensions	513,494	\$ 54,197	459,297	1
Consultants/Freelance	129,019		129,019	
Benefits	244,195		244,195	
Workman's Compensation	72,000		72,000	
Flex Credit Expense	109,175		109,175	
Inter-Co Time of Staff	39,000		39,000	
Other, Staff Costs	6,494	1,512	4,982	2
Bonus	441,067		441,067	
Rent and Rates	811,197		811,197	
Building Depreciation	32,377		32,377	
Building Utilities	6,195		6,195	
Repair and Renewals	890		890	
Inter-Co Service and Facilities	5,000		5,000	
Other, Establishment	34,107	3,448	30,659	3
Travel	29,644	12,873	16,771	4
Staff Training and Welfare	14,715		14,715	
Other, Personnel Costs	1,743		1,743	
New Business Costs	237,135	65,224	171,911	5
Advertisement/Promotion	60,505		60,505	
Stationary/Office Materials	76,076		76,076	
Equipment Lease	48,252		48,252	
Computer Costs	358		358	
Maintenance/Service Agreement	27,134		27,134	
Reproduction	(57,388)		(57,388)	
Furniture and Fixtures Depreciation	160,962		160,962	
Telephone/Facsimile	(79,690)		(79,690)	
Postage	9,240		9,240	
Other, Office Costs	88,091	1,515	86,576	6
Accountancy Costs	12		12	
Legal and Professional	22,765	2,275	20,490	7
Bank Charges	525		525	
Regional Overhead	<u>4,000</u>		<u>4,000</u>	
Total Indirect Costs	<u>\$5,451,273</u>	<u>\$141,044</u>	<u>\$5,310,229</u>	
Direct Labor	<u>\$3,127,906</u>		<u>\$3,127,906</u>	
Overhead Rate	<u>174.28%</u>		<u>169.77%</u>	

## NOTES TO SCHEDULE B-5

1. **Pensions.** We questioned \$54,197 for the reasons stated in Schedule B-1, Note 1.
2. **Other, Staff Costs.** We questioned \$1,512 for the reasons in Schedule B-2, Note 3.
3. **Other, Establishment Costs.** We questioned \$3,448 for the reason stated in Schedule B-2, Note 4.
4. **Travel.** We questioned \$12,873 of unsupported travel for the reasons stated in Schedule B-1, Notes 5 and 6.a.
5. **New Business Costs.** We questioned the amount claimed for contributions for the reasons stated in Schedule B-2, Note 3. We questioned the amount claimed for advertisement for the reasons stated in Schedule B-4, Note 5.b. We questioned \$65,224 of claimed costs.
6. **Other, Office Costs.** We questioned \$1,515 claimed for alcoholic beverages for the reason stated in Schedule B-1, Note 7.
7. **Legal and Professional.** Ogilvy returned a \$2,275 payment received from a client and recorded the disbursement as a legal and professional expense. A refund is not an expense in accordance with FAR 31.203. Accordingly, we questioned \$2,275.



**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE  
OGILVY ADAMS & RINEHART  
SCHEDULE OF OVERHEAD COSTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998**

	Claimed Costs	Questioned Costs	Costs per Audit	Notes
Salaries	\$2,477,288		\$2,477,288	
Employee Social Security Taxes	465,184		465,184	
Pensions	563,017	\$ 52,025	510,992	1
Staff Recruitment	7,170		7,170	
Consultants/Freelance	181,412		181,412	
Benefits	338,284		338,284	
Workman's Compensation	80,000		80,000	
Flex Credit Expense	131,600		131,600	
Inter-Co Time of Staff	132,800		132,800	
Other, Staff Costs	38,529	229	38,300	2
Bonus	809,701		809,701	
Rent and Rates	899,899		899,899	
Building Depreciation	33,309		33,309	
Building Utilities	4,391		4,391	
Repair and Renewals	3,040		3,040	
Inter-Co Service and Facilities	18,800		18,800	
Other, Establishment	41,356	6,407	34,949	3
Travel	71,257	28,192	43,065	4
Staff Training and Welfare	19,058		19,058	
Other, Personnel Costs	2,303		2,303	
New Business Costs	292,358	85,457	206,901	5
Publications and Periodicals	51,293		51,293	
New Business, Other	112		112	
Stationary/Office Materials	118,136		118,136	
Equipment Lease	40,602		40,602	
Computer Costs	4,885		4,885	
Maintenance/Service Agreement	41,672		41,672	
Reproduction	(64,189)		(64,189)	
Computer Service Costs	2,843		2,843	
Furniture and Fixtures Depreciation	207,734		207,734	
Telephone/Facsimile	(18,335)		(18,335)	
Postage	1,655		1,655	
Other, Office Costs	43,230	3,671	39,559	6
Legal and Professional	23,087		23,087	
Bank Charges	475		475	
Regional Overhead	<u>12,900</u>		<u>12,900</u>	
Total Indirect Costs	<u>\$7,076,856</u>	<u>\$175,981</u>	<u>\$6,900,875</u>	
Direct Labor	<u>\$4,028,838</u>		<u>\$4,028,838</u>	
Overhead Rate	<u>175.66%</u>		<u>171.29%</u>	

## NOTES TO SCHEDULE B-6

1. **Pensions.** We questioned \$52,025 for the reasons stated in Schedule B-1, Note 1.
2. **Other, Staff Costs.** Ogilvy claimed \$229 for meals with clients. We questioned the amount claimed for the reasons stated in Schedule B-1, Note 6.a.
3. **Other, Establishment Costs.** We questioned \$4,300 of estimated tax payments and \$2,107 of tax payments related to prior years for the reasons stated in Schedule B-1, Note 4.
4. **Travel.** We questioned \$28,192 as follows:
  - a. We questioned \$15,905 of unsupported travel costs for the reasons stated in Schedule B-1, Note 5.
  - b. Ogilvy claimed \$12,287 for travel expenses paid by Ogilvy's corporate office. The invoice did not, however, specify the nature or purpose of the travel. Accordingly, we questioned the amount claimed.
5. **New Business Costs.** We questioned the amount claimed for entertainment and consulting for the reasons stated in Schedule B-1, Note 6. We questioned the amount claimed for contributions for the reasons stated in Schedule B-2, Note 3. We questioned the amount claimed for travel for the reasons stated in Schedule B-1, Note 5. We questioned the amount claimed for advertisement for the reasons stated in Schedule B-4, Note 5.b. We questioned \$85,457 of claimed costs.
6. **Other, Office Costs.** We questioned \$3,671 claimed for alcoholic beverages for the reason stated in Schedule B-1, Note 7.

**INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE  
AND INTERNAL CONTROL STRUCTURE**

# COTTON & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, LLP

333 NORTH FAIRFAX STREET • SUITE 401 • ALEXANDRIA, VIRGINIA 22314

DAVID L. COTTON, CPA, CFE  
CHARLES HAYWARD, CPA, CFE

MICHAEL W. GILLESPIE, CPA, CFE  
CATHERINE L. NOCERA, CPA

ELLEN P. REID, CPA  
MATTHEW H. JOHNSON, CPA

May 12, 1999

Inspector General  
Corporation for National and Community Service

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

We audited costs claimed by Ogilvy Adams & Rinehart to the Corporation for National and Community Service for Contracts No. 93-743-1005 and No. 96-743-1008 for the period from October 1, 1993, through December 31, 1998, and have issued our report thereon dated May 12, 1999.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial schedules are free of material misstatement.

Compliance with applicable laws and regulations related to the contracts is the responsibility of Ogilvy management. As part of obtaining reasonable assurance that costs are free of material misstatements, we performed tests of compliance with certain provisions of laws and regulations related to the contracts. Our objective was not, however, to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

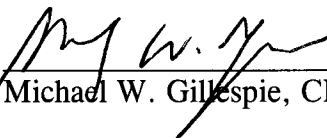
The results of our tests of compliance regarding claimed costs disclosed the following material instance of noncompliance that is required to be reported herein under *Government Auditing Standards*. Ogilvy claimed direct labor, overhead, travel, and other direct costs that were unallowable and unallocable in accordance with contract terms and conditions and the *Federal Acquisition Regulation*. Refer to the Schedule of Contract Costs on page 6.

**Recommendation.** We recommend that the Corporation direct Ogilvy to limit claimed costs to those allowable under applicable cost principles and contract provisions.

We considered the above material instance of noncompliance in forming our opinion on whether Ogilvy's costs claimed under the contracts for the period from October 1, 1993, through December 31, 1998, are presented fairly, in all material respects, pursuant to contract terms and conditions and the FAR. Because of the material instance of noncompliance and matters described in the Schedule of Contract Costs, our opinion on the schedule is qualified.

This report is intended for the use of the Inspector General and Corporation management. This report is a matter of public record, and its distribution is not limited.

COTTON & COMPANY, LLP

By:   
Michael W. Gillespie, CPA

# COTTON & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, LLP

333 NORTH FAIRFAX STREET • SUITE 401 • ALEXANDRIA, VIRGINIA 22314

DAVID L. COTTON, CPA, CFE  
CHARLES HAYWARD, CPA, CFE

MICHAEL W. GILLESPIE, CPA, CFE  
CATHERINE L. NOCERA, CPA

ELLEN P. REED, CPA  
MATTHEW H. JOHNSON, CPA

May 12, 1999

Inspector General  
Corporation for National and Community Service

## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE**

We audited costs claimed by Ogilvy Adams & Rinehart to the Corporation for National and Community Service for Contracts No. 93-743-1005 and No. 96-743-1008 for the period from October 1, 1993, through December 31, 1998, and have issued our report thereon dated May 12, 1999.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial schedules are free of material misstatement.

Ogilvy's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we obtained an understanding of Ogilvy's internal control structure. We obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk to determine our auditing procedures for the purpose of expressing an opinion on claimed costs and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted three matters involving the internal control structure and its operation that we consider reportable conditions under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect an organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule.

1. Ogilvy's accounting system could not identify direct and indirect labor costs or allowable and unallowable indirect expenses in accordance with the *Federal Acquisition Regulation* (FAR). Ogilvy only records total labor costs in its accounting system; it does not record or identify direct and indirect labor costs. We also noted that indirect expenses claimed included unallowable alcohol, marketing, entertainment, contributions, and advertising costs. Ogilvy's vice president of finance and administration stated that she would inform management about the requirement and also require all employees to identify allowable and unallowable travel and other expenses on their expense voucher.

**Recommendation.** We recommend that the Corporation direct Ogilvy to revise its accounting system to identify direct and indirect labor costs and allowable and unallowable indirect expenses.

**Ogilvy Comments.** In its response to the draft report, Ogilvy stated that it would continue to use memorandum records to identify direct and indirect labor costs. The memorandum records will be used to support billings and indirect rate calculations and will be reconciled to the accounting records on an annual basis. It also stated that all expenses would now be reviewed for allowability prior to entering costs into the general ledger. In addition, finance department staff will be trained to identify unallowable costs per FAR Part 31.

2. Ogilvy billed the Corporation for some types of costs at "standard costs." It did not document in writing the calculation of the standard costs or support the reasonableness of the rates used by periodic comparisons to actual costs. FAR 31.201-1, Composition of Total Costs, states that costs include standard costs properly adjusted for applicable variances. Cost Accounting Standard (CAS) 407 provides guidance on the use of standard cost accounting systems for Government contracts. CAS 407 states that

standard costs may be used only when the contractor enters standard costs into the books of account, accounts for standard costs and related variances, and states in writing its practices with regard to the setting and revising of standards and disposition of variances.

**Recommendation.** We recommend that the Corporation direct Ogilvy to revise its policies and procedures for determining standard costs to be in compliance with the FAR and CAS.

**Ogilvy Comments.** In its response to the draft report, Ogilvy stated that it would continue to bill for video production and photocopy expenses based on estimated costs. However, it revised its procedures and will now accumulate actual costs and will make adjustments for material variances between actual and estimated costs on an annual basis.

3. Ogilvy does not have adequate timekeeping procedures. Ogilvy employees did not sign their timesheets; supervisors did not sign all timesheets; and employees and supervisors did not initial alterations to timesheets. Sound internal controls dictate that timesheets must be signed by employees and supervisors and changes to timesheets must be marked through and initialed by employees and supervisors.

**Recommendation:** We recommend that the Corporation direct Ogilvy to require supervisors and employees to sign all timesheets and initial all timesheet corrections.

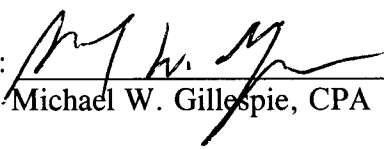
**Ogilvy Comments.** In its response to the draft report, Ogilvy stated that it revised its timekeeping policies and procedures in accordance with the recommendations in the report.

We believe all the matters described above are material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.



This report is intended for the use of the Inspector General and Corporation management. This report is a matter of public record, and its distribution is not limited.

COTTON & COMPANY, LLP

By:  \_\_\_\_\_  
Michael W. Gillespie, CPA

**APPENDIX A**

**THE CORPORATION'S RESPONSE**

CORPORATION

FOR NATIONAL

★ SERVICE

---

---

MEMORANDUM


---

---

**DATE:** 7/9/99

**TO:** Luise Jordan, OIG

**CC:** Simon Woodard, Director, Procurement Services  
Wilsie Minor, Assistant General Counsel

**FROM:** Wendy Zenker, COO 

**RE:** OIG Report 99-07, Draft Audit of Contracts No. 93-743-1005 and 96-743-1008  
with Ogilvy Adams and Rinehart

---

The subject draft report cites conditions and deficiencies pertaining to the performance of Ogilvy, Adams and Rinehart under Contracts No. 93-743-1005 and 96-743-1008. We have reviewed the draft report and do not have specific comments at this time. We will address the findings and recommendations in the final management decision.



**APPENDIX B**

**OGILVY ADAMS & RINEHART, INC.'S RESPONSE**

Michael Gillespie, CPA  
Cotton & Co.  
333 North Fairfax Street  
Suite 401  
Alexandria, VA 22314

July 9, 1999

Subject: Audit of Corporation for National and Community Service Contracts No. 93-743-1005 and No. 96-743-1008 with Ogilvy, Adams and Rinehart.

Dear Mr. Gillespie:

Thank you for the opportunity to respond to the audit report. As a result of this audit, Ogilvy Public Relations has implemented several procedures to strengthen our internal controls and ensure compliance with all applicable federal procurement regulations. Noted below are our responses to the issues raised in the audit report.

#### Timekeeping Procedures

We have revised our timekeeping policies and procedures to require the following:

- All employees must sign their timesheets;
- All supervisors must approve the timesheets for the individuals reporting to them;
- All corrections/changes to timesheets must be made in ink, initialed by both the employee and the supervisor and provide a sufficient and relevant explanation for the correction;
- Timesheets must be completed by the employee on a daily basis.

All employees have been notified of these revisions and that failure to comply with these procedures may result in disciplinary action.

#### Other Direct Costs

Ogilvy will continue to propose and bill its photocopy expense based on estimated costs. However, an expense account has been established to capture actual photocopying costs on a monthly basis. This account will be reviewed on a quarterly basis and estimated costs will be trued up to actual costs on an annual basis. Adjustments for material variances, if any, will be made on an annual basis. Our method of calculating both actual and estimated other direct costs will be documented in writing.

#### OVPC Costs

The general ledger has also been revised to capture the materials, supplies and equipment costs for the OVPC machinery. Also, a log has been established to record the number of hours this machinery is used and the purpose of its use. The log requires the following information:

- Date
- Length of Use
- User Name
- Job Number
- Indirect Charge Number (if applicable)
- Description of Work (i.e., editing vs. dubbing)

This information will be reviewed on a monthly basis by the finance department to ensure compliance. We will continue to propose and bill OVPC costs based on estimates, however, these costs will be reconciled to actual costs on an annual basis. Adjustments for material variances, if any, will be made on an annual basis.

#### Unallowable Costs

All expenses will be reviewed for cost allowability prior to entering such costs into the general ledger. Unallowable costs will be recorded into expense accounts specifically established to identify and segregate such costs. The finance department staff will be trained to identify unallowable costs per FAR Part 31.

#### Direct vs Indirect Labor

Ogilvy will continue to use memorandum records to identify direct and indirect labor costs. The underlying timesheets and total labor costs will continue to be recorded in the accounting system. The memorandum records will be used to support billings and indirect rate calculations and will be reconciled to the accounting records on an annual basis.

#### Pension Expense

As previously discussed with you, the pension expense incurred by this office is based on intercompany billings from the New York corporate office. Unfortunately, we are unable to obtain additional information regarding the allocation of pension expense. However, an analysis of estimated pension expense performed as a result of this audit indicates that, based on headcount and the independent actuarial valuation report, Ogilvy has underallocated its pension expenses a net amount of \$210,485. The documentation supporting this calculation has been provided to your office. Nevertheless, in an effort to resolve this matter in a timely and efficient manner, we do not disagree with the allocation of \$300,000 per year in pension expense.

As previously stated, we appreciate this opportunity to respond to your findings. We trust that the procedures that we have implemented as a result of this audit demonstrate our commitment to developing and maintaining an accounting system in compliance with the Federal Acquisition Regulations. If you have any further questions or require additional information, please do not hesitate to contact me at 202-452-9403.



Marcia Silverman  
President