



# Audit Report



OIG-15-035

BILL MANUFACTURING: Audit of Incurred Costs on BEP's Public Education and Awareness Contract with Burson-Marsteller

June 10, 2015

## Office of Inspector General

### Department of the Treasury

This report has been reviewed for public dissemination by the Office of Counsel to the Inspector General. Information requiring protection from public dissemination has been redacted from this report in accordance with the Freedom of Information Act, 5 U.S.C. 552.

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## Abbreviations

BEP	Bureau of Engraving and Printing
CFO	Chief Financial Officer
FAR	Federal Acquisition Regulation
FFP	firm-fixed-price
FRB	Board of Governors of the Federal Reserve System
GAO	Government Accountability Office
ODC	other direct costs
OIG	The Department of the Treasury Office of Inspector General
T&M	time and materials

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*The Department of the Treasury  
Office of Inspector General*

June 10, 2015

Ernest M. Dilworth  
Chief, Office of Procurement  
Bureau of Engraving and Printing

This report provides the results of our audit of the costs incurred under the Bureau of Engraving and Printing's (BEP) 2006 Public Education and Awareness Program contract (TEP-07-003). The contractor is Young & Rubicam, Inc., doing business as Burson-Marsteller.

Our audit objectives were to (1) assess whether Burson-Marsteller's accounting and labor recording system tracked costs in accordance with the contract and the Federal Acquisition Regulation (FAR); and (2) determine whether costs incurred, including labor, materials, and other direct costs (ODC) were invoiced in accordance with the contract and the FAR. We performed our audit fieldwork from February 2012 to February 2014. Appendix 1 contains a more detailed description of our audit objectives, scope, and methodology.

## Results in Brief

Over the 5-year Public Education and Awareness Program contract, Burson-Marsteller invoiced and BEP paid approximately \$33.2 million for services provided. BEP awarded the master

contract as time and materials (T&M).<sup>1</sup> However, some task orders were proposed by Burson-Marsteller and issued by BEP as other contract types such as firm-fixed-price (FFP)<sup>2</sup> and hybrid<sup>3</sup> during contract performance.

Table 1 summarizes the total contract costs by task order type invoiced by Burson-Marsteller, paid by BEP, and audited by the Office of Inspector General (OIG), and the costs questioned by our audit.<sup>4</sup>

**Table 1. Summary of Costs Audited and Questioned**

Task Order Type	Costs	
	Audited	Questioned
T&M	\$26,390,056	\$2,386
Hybrid	6,239,882	943,451
FFP	604,442	0
<b>Total</b>	<b>\$33,234,380</b>	<b>\$945,837</b>

Source: Burson-Marsteller invoices from 2007 to 2011

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- <sup>1</sup> According to FAR 16.601, *Time-and-materials contracts*, a T&M contract provides for acquiring supplies or services on the basis of direct labor hours at specified hourly rates and actual cost for materials. The specified hourly rates include wages, overhead, general and administrative expenses, and profit. The cost for materials is defined as direct materials, subcontracts, and other direct costs. This type of contract provides no positive profit incentive to the contractor for cost control or labor efficiency. Therefore, monitoring the contractor's performance is a necessity to ensure the contractor uses efficient methods and controls costs. With a T&M contract, the contract provides a ceiling price that the contractor exceeds at its own risk.
- <sup>2</sup> Under a FFP contract, the government pays a fixed price and is guaranteed an end item or service whether actual total cost of the product or service falls short of or exceeds the contract price. With a FFP contract, the contractor assumes the risk of cost overrun.
- <sup>3</sup> A hybrid contract or task order includes more than one contract type in the same contract or task order.
- <sup>4</sup> A questioned cost is a cost that is questioned by the auditor because of an audit finding. There are three different types of questioned costs: (1) unallowable – costs that resulted from an alleged violation or possible violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds; (2) unsupported – costs, at the time of the audit, that are not supported by adequate documentation; or (3) unreasonable – costs incurred that appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

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Of the task orders issued, Burson-Marsteller's labor charges for T&M task orders, the largest component of the contract, were appropriately supported, consistently tracked, and properly invoiced to BEP. However, we are questioning \$945,837 of the total amount invoiced, most of which related to the hybrid task orders for an activity referred to as "materials fulfillment" services.<sup>5</sup> We recommend that BEP's contracting officer determine the allowability of the questioned costs and request reimbursement from Burson-Marsteller as appropriate.

We issued a separate communication to BEP management regarding meals that were purchased by Burson-Marsteller for several government employees and billed to BEP under the contract in violation of federal appropriations law.<sup>6</sup> From a sample of transactions reviewed, we found that Burson-Marsteller invoiced and BEP paid \$2,275 related to these meals.

#### Burson-Marsteller Management Response

In a written response, Burson-Marsteller management disagreed with all but \$640 of the \$945,837 questioned costs stating that the OIG erroneously characterized the contract as T&M exclusively and that the costs billed were, in fact, fixed-priced. We, however, believe that Burson-Marsteller's position is without merit. We recognized that the contract was changed from a T&M contract to a hybrid contract that included FFP components for the materials fulfillment task orders. In this regard, we did not question Burson-Marsteller labor costs associated with the FFP portion of the contract for fulfillment coordination and oversight. However, we are questioning costs that are subcontract costs and other direct costs that should have been billed at cost by Burson-Marsteller and its vendors.

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<sup>5</sup> Materials fulfillment services included processing orders for educational materials, managing a call center, warehousing of educational materials, distribution of educational materials, and overseeing the fulfillment operation. Hybrid task orders issued on the Burson-Marsteller contract consisted of both T&M and FFP components and were related to the materials fulfillment services.

<sup>6</sup> Results are reported in our memorandum, *Contractor-Provided Meals to BEP Employees* (OIG-CA-15-019; issued June 10, 2015).

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Burson-Marsteller's response is provided as appendix 2. We have summarized and evaluated Burson-Marsteller's response in the Audit Results section of this report and in appendix 3.

## Background

BEP public education and awareness programs are intended to promote a seamless introduction of new currency into domestic and global commerce. Before a redesigned denomination of U.S. currency is issued into circulation, BEP and its key partners, the Board of Governors of the Federal Reserve System (FRB) and U.S. Secret Service (Secret Service), consider it important that domestic and international users and cash handlers are aware of the changes in the note's features so they will accept and use the currency. Since redesigned currency co-circulates for a period of time with the previously issued designs, the target audiences also need to understand that older currency designs remain valid legal tender and those older notes will not be devalued. BEP administered the public education and awareness programs in coordination with the FRB and Secret Service until October 2011, when the contract ended and FRB assumed the responsibilities for the program.

In 2006, BEP launched a public education and awareness program for the introduction and release of redesigned NexGen \$5 and \$100 notes. In December 2006, BEP awarded a 5-year T&M master contract with a ceiling of \$36.2 million to Burson-Marsteller to support the program. During the contract term, the ceiling was increased to \$57.5 million. BEP officials stated that the increase was due to unanticipated costs related to the materials fulfillment services, a longer than expected period of performance due to delays in the NexGen \$100 note issuance,<sup>7</sup> and underestimated program costs. At the end of the contract on September 30, 2011, BEP had paid Burson-Marsteller about \$33.2 million. The lower than expected program costs resulted from the cancellation of

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<sup>7</sup> The NexGen \$100 note was unveiled in April 2010, with issuance planned for February 2011. However, in October 2010, this release was delayed due to production problems. On October 8, 2013, the new notes were introduced into circulation.

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many activities planned under the contract for the introduction of the NexGen \$100 note because of production problems, the temporary production delay in October 2010, and the transfer of the public education and awareness program to the FRB in October 2011.

Through the master contract and the related task orders, Burson-Marsteller, a public relations and communications firm, supported the public education program by providing research, program branding, stakeholder and media outreach, education material development, materials fulfillment, and an interactive website. Burson-Marsteller used a network of its practice groups, affiliates, and subcontractors to support the scope of work on the contract.

#### Materials Fulfillment

A significant service provided by Burson-Marsteller under the contract was materials fulfillment. The materials fulfillment task orders were managed by Direct Impact, a wholly-owned division of Burson-Marsteller. To help manage the tasks, Direct Impact performed some of the work<sup>8</sup> and sub-contracted with WebbMason, Inc. (WebbMason). WebbMason, in turn, sub-contracted with BrightKey, Inc. (BrightKey), for other materials fulfillment services. BrightKey provided materials storage, order processing, warehouse support services, and inventory reporting.

When the contract ended, the materials fulfillment task order invoices totaled [REDACTED]. These task order invoices included three categories of charges for materials fulfillment: (1) labor of [REDACTED] for fulfillment coordination and oversight using a monthly FFP amount; (2) ODC of [REDACTED] using a per-box processing charge which included Direct Impact's call center operations; and (3) ODC of [REDACTED] primarily for shipping, customs, and storage costs. See table 2 below for more

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<sup>8</sup> Direct Impact employees followed Burson-Marsteller's timekeeping policies except when they were working on FFP task orders or the FFP portion of hybrid task orders. Direct Impact employees had access to the same timekeeping system as Burson-Marsteller employees and were required to track their time when supporting T&M contracts and task orders.

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information on each category. {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

**Table 2. Summary of Materials Fulfillment Task Order Billing Categories**

Task Order Type	Total Invoiced	Billing Category and Description
Hybrid/FFP	[REDACTED]	Burson-Marsteller and Direct Impact labor for reviewing reports and invoices, oversight, and interaction with BEP and subcontractors.
Hybrid/T&M	[REDACTED]	ODC for “box processing” activities. Box processing activities include Direct Impact call center operations, as well as WebbMason and BrightKey invoiced costs to process orders, manage shipments, provide warehouse support, and report inventory quantities.
Hybrid/T&M	[REDACTED]	ODC for WebbMason, BrightKey, and other vendors for shipping, customs, and storage.
Total	[REDACTED]	

Source: Burson-Marsteller 2006 Public Education and Awareness Program Contract, Fulfillment Task Order Summaries for 2007 to 2011, and OIG interviews of Direct Impact employees. {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

## Audit Results

Based on our audit, we are questioning \$945,837 of the approximately \$33.2 million invoiced by Burson-Marsteller and paid by BEP. The costs questioned consist of (1) \$943,451 related to materials fulfillment services and (2) \$2,386 related to other ODC invoiced by the contractor.

### Materials Fulfillment Services - \$943,451 Questioned

We are questioning \$943,451 of the invoiced [REDACTED] in ODC for the fulfillment task orders as shown in table 3 below. {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

**Table 3. Summary of Fulfillment Questioned Costs**

<b>Description</b>	<b>Amount</b>	<b>Note</b>
Unsupported Box Processing Charges	\$726,438	(a)
Unreasonable Box Processing and Storage Charges	216,373	(b)
Unallowable Shipping Charges	640	(c)
<b>Total</b>	<b>\$943,451</b>	

(a) Unsupported Box Processing Charges As of the end of the 5-year contract, Burson-Marsteller invoiced BEP a total of [REDACTED] in box processing charges and could only provide support for [REDACTED] with WebbMason invoices. Accordingly, we are questioning the difference of \$726,438 as unsupported. In addition, we are also questioning a portion of the WebbMason-invoiced amount to Burson-Marsteller as unreasonable as discussed in (b) below. {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

The 2006 Public Education and Awareness Program contract stipulates that Burson-Marsteller will be reimbursed at the contractually negotiated labor rate for the actual number of labor hours incurred and for materials<sup>9</sup> at the actual cost incurred. The contract and FAR<sup>10</sup> require that each invoice be supported by the appropriate documentation demonstrating that

<sup>9</sup> FAR 16.601, *Time-and-materials contracts*, defines materials as direct materials, subcontracts, and other direct costs. Throughout the proposal and contract performance period, Burson-Marsteller prepared documentation for the 2006 Public Education and Awareness Program contract that showed the box processing as an ODC. These documents include their (i) Business Management Proposal Fulfillment Task Order Budget of June 16, 2006, submitted in response to BEP’s solicitation for the contract; (ii) five annual Fulfillment Task Order Budget Proposals for fiscal years 2007 through 2011 that supported BEP’s annual task order budget requests; and (iii) Task Order Budget Summaries from 2007 to 2011 to support invoices sent to BEP. According to the FAR, the non-labor components in a T&M contract are treated as materials at actual cost.

<sup>10</sup> According to FAR 31.201-2, *Determining allowability*, a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred.

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costs claimed have been incurred and attesting to the amount invoiced.

Burson-Marsteller invoiced the Direct Impact labor on the fulfillment task orders two different ways during the contract period, first as a monthly FFP for labor associated with fulfillment coordination and oversight totaling [REDACTED], and second as part of the ODC for box processing totaling [REDACTED]. Direct Impact employees did not track their time when working on either of these tasks. We noted that Burson-Marsteller's timekeeping system was available for Direct Impact employees' use. Direct Impact employees used this timekeeping system to record time when they worked on non-fulfillment T&M task orders and Burson-Marsteller invoiced their time to BEP as direct labor. {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

Of the total [REDACTED] invoiced as ODC to BEP for box processing, Burson-Marsteller provided us with copies of WebbMason invoices to support [REDACTED]. When we asked Burson-Marsteller's Direct Impact division officials for the records to support the remaining ODC of [REDACTED], they told us that the remainder was for Direct Impact call center employee labor and related expenses. They also told us that they did not have the documents to support this amount because they believed the box processing charges were FFP and evidence of labor charged was not necessary. When asked for documentation to support their assertion that the box processing was FFP, Burson-Marsteller officials were unable to produce the documentation. Contrary to their assertion that the box processing was a FFP, Burson-Marsteller-prepared documents in pre-award and during contract performance support the box processing charge as an ODC. {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

We concluded that Direct Impact labor charged as an ODC for box processing was not adequately supported and did not comply with contract terms. Furthermore, Direct Impact employees did not account for all their time worked on the BEP contract.

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### Burson-Marsteller Response

Burson-Marsteller disagreed with the questioned amount of \$726,438 in box processing charges stating that the [REDACTED] billed to BEP was at fixed rates per box for domestic and international deliveries as proposed and that a succession of fulfillment task orders were classified by the cognizant contracting officer as "hybrid" task orders in that they encompassed both firm-fixed-price and T&M elements. Burson-Marsteller further states that its proposal to BEP was for a fixed price-per-box, one price for domestic deliveries and another price for international deliveries that included (a) cartons, inside boxes, packing materials; (b) direct labor distributed on a per box basis associated with call center, order processing and other such time expenditures performed by Direct Impact employees; and (c) materials handling and inventory management work provided by WebbMason, and its subcontractor. {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

### OIG Comment

We disagree with Burson-Marsteller's position that the contract was hybrid as classified by the contracting officer. As a matter of fact, Burson-Marsteller was the party in the contract that changed the contract type by including the fixed-priced component in its 2007 annual fulfillment task order budget proposal to BEP. This proposal was prepared and submitted in a format inconsistent with the master contract. We acknowledge that BEP did not formally reject the incorrect proposal. However, it was clear that BEP intended the contract to be T&M. During the solicitation stage in 2006, BEP requested that potential offerors submit T&M proposals because the government contemplated issuing a T&M contract. During the question and answer timeframe, BEP also responded to a potential bidder's question of

"We recommend that the government list the type of contract as an Indefinite-Delivery Indefinite-Quantity (IDIQ) contract using Firm-Fixed-Price and Time and

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Materials task/delivery orders. As this contract structure will enable the government to receive task order proposals that are based on both fixed price and time and materials pricing elements, will the government consider amending the RFP to provide for this type of contract structure? Please clarify.”

For this question, BEP responded with

“The Bureau of Engraving and Printing is not contemplating to amend the RFP nor inclined to convert the solicitation structure to an IDIQ contract. This is a Time and Material contract only. The Contractor will be reimbursed for time and material costs based upon the actual cost incurred.”

Burson-Marsteller submitted a proposal for a T&M only contract, and was on notice that it would be a T&M contract.

For billing purposes, the box processing provided by WebbMason (and BrightKey) are subcontract costs as proposed and such costs should be supported by subcontractor invoices. Burson-Marsteller labor costs billed to BEP as claimed by the contractor to be a part of box processing is not supported by time cards or labor distribution reports. And there is no way to tell whether or which Burson-Marsteller employees supported box processing, fulfillment coordination and oversight, or other projects, either for BEP or for other customers.

- (b) Unreasonable Box Processing and Storage Charges In total, WebbMason invoiced Burson-Marsteller [REDACTED] for fulfillment services as ODC, which was subsequently invoiced to BEP and paid. WebbMason’s total charges included [REDACTED] in box processing fees as previously discussed and [REDACTED] in storage fees. We believe that part of WebbMason’s charge of [REDACTED] in box processing fees and the [REDACTED] in storage fees are unreasonable costs because the charges substantially exceeded amounts BrightKey invoiced WebbMason. {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

According to FAR 31.201-3, *Determining reasonableness*, a cost is reasonable if it does not exceed that which would be incurred by a prudent person. The burden of proof falls on the contractor to establish that the cost is reasonable if the contracting officer challenges a specific cost.

Before invoicing BrightKey charges to Burson-Marsteller, WebbMason included a markup that ranged from 52 percent to 83 percent, depending on the type of activities provided. For example, WebbMason charged [REDACTED] per pallet per month for storage compared to the average amount it paid to BrightKey of [REDACTED] per pallet. Table 4 shows examples of BrightKey’s average rates charged to WebbMason over the 5-year contract period compared to the rates WebbMason charged to Burson-Marsteller and subsequently to BEP for several activities included in box processing and storage. {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

**Table 4. Summary of WebbMason’s Markup on BrightKey Invoices**

<b>Fee Categories per BrightKey</b>	<b>BrightKey’s Rates (5-year average)</b>	<b>WebbMason’s Rates</b>	<b>Percent Markup</b>
Project Management Fee per Month	[REDACTED]	[REDACTED]	52
Transmitted Orders	[REDACTED]	[REDACTED]	81
Mail/Fax Orders	[REDACTED]	[REDACTED]	83
Receive Cartons per Box	[REDACTED]	[REDACTED]	80
Return Per Carton	[REDACTED]	[REDACTED]	83
Bulk Orders	[REDACTED]	[REDACTED]	83
Storage Fee/Bulk Pallet per Month	[REDACTED]	[REDACTED]	78

Source: WebbMason invoices from February 2007 to July 2011 and BrightKey invoices from November 2007 to July 2011.

We also found that WebbMason was not named as a subcontractor on any contract documents; BrightKey was the only fulfillment subcontractor named on contract documents submitted by Burson-Marsteller to BEP. Until the last year of the 5-year contract, BEP contracting officers were only aware of

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BrightKey as the subcontractor providing fulfillment services under the contract. When we asked BEP and Direct Impact to explain the role that WebbMason supported in the contract, neither party could articulate what services WebbMason provided. WebbMason's Chief Financial Officer told us that WebbMason's main contribution to the contract was to identify and qualify BrightKey as a fulfillment second tier subcontractor in 2002.<sup>11</sup>

Using BrightKey invoices provided by WebbMason, we found that on average WebbMason increased the total box processing charges by 46 percent and the total storage fees by 76 percent over the 5 year contract period.<sup>12</sup> Given that WebbMason's contribution to the materials fulfillment portion was primarily limited to identifying BrightKey as a supplier in the 2002 contract, we concluded that WebbMason's markups of 46 percent, or ██████████, for box processing and 76 percent, or ██████████, for storage fees for the 2006 contract are unreasonable. As a result, we are questioning a total of \$216,373 of the ██████████ in WebbMason charges for BrightKey activities. {REDACTED - FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

#### Burson-Marsteller Response

Burson-Marsteller disagreed with the questioned amount of \$216,373 in box processing and storage charges stating that the ██████████ billed to BEP was fixed per box for domestic and international deliveries. Burson-Marsteller also said that it

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<sup>11</sup> BEP also had a contract with Burson-Marsteller from 2002 to 2006 for the public education and awareness program for the \$50, \$20, and \$10 notes. Both WebbMason and BrightKey were subcontractors for the materials fulfillment portion of this contract.

<sup>12</sup> The markup was calculated by taking (1) the difference between the total BrightKey invoiced WebbMason from November 2007 through July 2011 and the corresponding total WebbMason invoiced Burson-Marsteller for the same period and dividing by (2) BrightKey's total invoiced to WebbMason from November 2007 through July 2011. WebbMason was unable to provide copies of BrightKey invoices from January 2007 through October 2007. The dollar amount markup for invoices for this period was calculated by applying the average percentage markup calculated from BrightKey's invoices we reviewed (46 percent for per-box processing charges and 76 percent for storage).

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was not privy to the specific arrangement between its first-tier subcontractor, WebbMason, and the second-tier subcontractor, BrightKey. Burson-Marsteller further explained that the WebbMason-BrightKey structure was established in the previous contract and that it was not required to identify its subcontractors to BEP. In addition, Burson-Marsteller stated that BEP's contracting officer's technical representative was aware of WebbMason's relationship with Burson-Marsteller, visited the warehouse facility, and met the WebbMason account representative. Furthermore, Burson-Marsteller disagreed with the term "markup" and stated that WebbMason clearly provided value-added project and inventory management services throughout the course of the contract as attested to by their Chief Financial Officer (CFO) in writing.<sup>13</sup> {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

#### OIG Comment

We disagree with Burson-Marsteller's response. Even though Burson-Marsteller may not be privy to the specific arrangement between its first-tier subcontractor, WebbMason, and the second-tier subcontractor, BrightKey, it is responsible for making sure costs charged are reasonable regardless of whether the WebbMason-BrightKey structure was established in the previous contract. Each contract is a stand-alone event and the contractor is responsible for paying costs that a prudent business person would pay. Burson-Marsteller did not pay the costs that a prudent business person would pay. For example, WebbMason added a 78 percent markup to BrightKey's storage rate. Storage of fulfillment materials was done solely by BrightKey in BrightKey warehouses; WebbMason played no part in the storage of the materials. In fact, WebbMason's price for storage far exceeded the price proposed by other fulfillment vendors. In this regard, prior to the 2006 contract, Burson-Marsteller received proposals from five vendors to provide fulfillment services for the BEP contract. Of the five bids

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<sup>13</sup> Burson-Marsteller included a copy of the WebbMason CFO's written attestation as part of its response at Appendix 2 (pages 45 and 46).

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received, WebbMason's proposed price of [REDACTED] per pallet per month was the highest. The other proposed prices ranged from [REDACTED] per pallet per month to [REDACTED] per pallet per month. Given the range of prices from other fulfillment vendors, we believe the price Burson-Marsteller paid WebbMason was unreasonable. {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

In the context of the contract, the BEP's contracting officers were aware of BrightKey but not WebbMason until the last year of the contract. Burson-Marsteller reported BrightKey as the fulfillment subcontractor in all contracting documents; WebbMason was never named. BrightKey was also named as the fulfillment subcontractor in Burson-Marsteller's contract proposal documents and fulfillment task order proposal documents. Burson-Marsteller and Direct Impact never included WebbMason invoice documents in their invoice packages to BEP. Burson-Marsteller also referred to BrightKey, and not WebbMason, as the fulfillment vendor in its internal documents. In a Vendor Recommendation for Fulfillment memo, drafted by the Burson-Marsteller fulfillment task order manager, she recommended using Professional Mailing and Distribution Services<sup>14</sup> (BrightKey) as the fulfillment vendor. WebbMason was not mentioned in the vendor analysis document.

We acknowledge the letter written by WebbMason's CFO describing the work WebbMason performed under the fulfillment task order. However, the information provided in this letter is inconsistent with the information provided to us verbally during interviews with the Burson-Marsteller fulfillment task order manager, WebbMason's account representative, and WebbMason's CFO. Based on the level of work described in the interviews with these individuals, we maintain that the costs charged by WebbMason were unreasonable. In fact, during our interview with WebbMason's CFO, he stated that WebbMason's role was to identify and qualify BrightKey as a subcontractor. It is interesting that in a written response provided to our findings

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<sup>14</sup> BrightKey was founded in 1988 as Professional Mailing and Distribution Services.

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the CFO listed services WebbMason provided on the contract that were not mentioned during our interview.

Furthermore, we disagree with Burson-Marsteller's comment that it was not required to identify its subcontractors to BEP. FAR 52.244-2, *Subcontracts*, is incorporated in the contract by reference. This clause requires consent for T&M, cost reimbursement, labor hour subcontracts, and fixed price subcontracts that exceed the simplified acquisition threshold of \$150,000 or 5 percent of the total contract price if the contractor does not have an approved purchasing system. Burson-Marsteller did not have an approved purchasing system at the time of the contract and its subcontract with WebbMason was identified by Burson-Marsteller as a T&M and FFP subcontract that exceeded the simplified acquisition threshold. Therefore, Burson-Marsteller was required to get approval from the BEP contracting officer prior to subcontracting with WebbMason.

Regardless of the arrangements made between WebbMason and BrightKey, Burson-Marsteller was responsible for ensuring that subcontract costs are reasonable and allowable per the FAR.

(c) Unallowable Shipping Charges According to FAR 31.201-2, *Determining allowability*, a cost is allowable only when it is reasonable, allocable, and complies with the terms of the contract, cost accounting standards, and the FAR. BEP's 2006 Public Education and Awareness Program contract stipulates that the contractor will be reimbursed for materials that are necessary for the successful performance of the public education and awareness program. We reviewed a sample of items totaling [REDACTED] from a total universe of [REDACTED] in fulfillment shipping costs charged to BEP. Of the amount reviewed, we identified \$640 in questioned costs because the costs are not allocable to the BEP contract. The costs questioned were for shipping charges that should have been charged to other Burson-Marsteller clients. During our audit, we provided details of these charges to the contractor. Burson-Marsteller officials told us that they were not certain how these

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errors occurred. Because we did not use statistical sampling techniques in reviewing these transactions, we cannot project the results of our sample to the universe. {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

Burson-Marsteller Response

Burson-Marsteller agreed with the questioned amount of \$640 stating that it was charged to BEP in error.

**Other ODC - \$2,386 Questioned**

We are questioning \$2,386 of the invoiced [REDACTED] in ODC for task orders that were for services other than fulfillment as shown in table 5 below. {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

**Table 5. Summary of Questioned Costs for Services Other Than Fulfillment**

Description	Amount	Note
Unallowable Meal Charges	\$2,275	(a)
Unsupported Meal Charge	111	(b)
Total	\$2,386	

(a) Unallowable Meal Charges Burson-Marsteller claimed costs that violated Federal appropriations law. According to the U.S. Government Accountability Office (GAO) *Principles of Federal Appropriations Law*, appropriated funds are not available to pay subsistence or to provide free food to government employees at their official duty stations unless specifically authorized by statute.<sup>15</sup> Food is considered a personal expense and government salaries are presumed adequate to enable employees to eat regularly. Additionally, FAR 31.201-3 states that when determining whether a cost is reasonable, a contracting officer must take into consideration generally accepted sound business practices and Federal and State laws and regulations.

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<sup>15</sup> GAO *Principles of Federal Appropriations Law*, Chapter 4, Section C.5, “Entertainment—Recreation—Morale and Welfare” (Jan. 2004)

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A total of [REDACTED] of meals and entertainment costs were invoiced to BEP under the contract. We selected a sample of meals and entertainment transactions totaling \$6,907 using non-statistical sampling techniques. From the sample of transactions reviewed, we found that Burson-Marsteller charged BEP \$2,275 for meals purchased for government employees. Since regulations prohibit government employees from receiving meals from contractors, the \$2,275 charged to BEP for government employee meals is unreasonable according to FAR 31.201-3. When asked about providing meals to government employees, a Burson-Marsteller official told us that meals were often ordered when contract-related meetings were held during lunch hours. The official also said that government employees participating in the meetings did not pay for their portion of the meal. According to the official, Burson-Marsteller received approval from the contracting officer's representative prior to ordering meals. Nevertheless, the meal charges for government employees were not reasonable costs under the contract. Because we performed a non-statistical sample, we did not project the results of our testing to the total universe. {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

#### Burson-Marsteller Response

Burson-Marsteller disagreed with the questioned amount of \$2,275 stating that meals were provided during lengthy program meetings that included mid-day meal time and that providing meals to employees of a government entity whose funding is not appropriated was not in violation of GAO's *Principles of Federal Appropriations Law*.

#### OIG Comment

BEP operations are financed by means of a revolving fund established in 1950 in accordance with Public Law 81-656, and according to the GAO *Principles of Federal Appropriations Law*,

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a revolving fund is an appropriation.<sup>16</sup> Accordingly, funds in a revolving fund are subject to the various purpose, time, and amount limitations and restrictions applicable to appropriated funds. Therefore, and notwithstanding the circumstances under which the meals were provided to the BEP employees, the meal costs are unallowable under Federal appropriations law.

- (b) Unsupported Meal Charge We are questioning \$111 of the incurred [REDACTED] of subcontractor and Burson-Marsteller affiliates' costs for services other than fulfillment. Our sample included [REDACTED] in charges and we found that \$111 for a meal incurred by a Burson-Marsteller affiliate, the PBN Company, was not adequately supported. The expense was for a meal related to travel to Russia but the receipt supporting the transaction is blank, and we cannot determine the actual cost of the meal. When asked about the blank receipt, a Burson-Marsteller official told us that sometimes when receipts are scanned they are not legible and the employee will then hand write in the dollar amount on the receipt. {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

Because we reviewed the transactions using non-statistical sampling techniques, we did not project the results of our testing to the total universe.

#### Burson-Marsteller Response

Burson-Marsteller disagreed with the questioned amount of \$111 stating that even though the receipt was not legible, the meal was for three people and the amount is fair and reasonable and was approved by BEP.

#### OIG Comment

Costs claimed under the contract should be supported by proper documentation. Section G.4.d of the contract states that each

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<sup>16</sup> GAO *Principles of Federal Appropriations Law*, Chapter 12, Section C.4, "Revolving Funds, Expenditures/Availability" (Sep. 2008)

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invoice submitted shall be supported by appropriate documentation to show and attest to the amount being billed.

## Recommendations

We recommend that the BEP Contracting Officer:

1. Determine the allowability of \$943,451 in questioned costs for materials fulfillment services, including (a) \$726,438 in unsupported box processing charges for Direct Impact call center operations costs, (b) \$216,373 in unreasonable WebbMason charges for excessive amounts above BrightKey's invoice amounts, and (c) \$640 in unallowable fulfillment shipping charges. If the contracting officer determines the costs are unallowable, BEP should request a refund from Burson-Marsteller.
2. Determine the allowability of \$2,386 in questioned costs for ODC for services other than fulfillment, including (a) \$2,275 charged for meals that Burson-Marsteller provided to government employees and (b) \$111 in unsupported meal costs. If the contracting officer determines the costs are unallowable, BEP should request a refund from the contractor. BEP should also review the remaining meals and entertainment charges that were not included in our sample to determine whether the other meal costs are unallowable and request a refund from the contractor as appropriate.

\* \* \* \* \*

We appreciate the courtesies and cooperation extended by your staff as we inquired about these matters. Major contributors to this report are listed in appendix 4. A distribution list for this report is provided as appendix 5. If you wish to discuss this report, you may contact me at (202) 927-5904 or Debbie Harker at (202) 927-5762.

/s/

Kieu T. Rubb

Director, Procurement and Manufacturing Audits

We audited the costs incurred under the Bureau of Engraving and Printing's (BEP) 2006 Public Education and Awareness Program contract (TEP-07-003). The contractor is Young & Rubicam, Inc., doing business as Burson-Marsteller. The objectives of our audit were to (1) assess whether Burson-Marsteller's accounting and labor recording system tracked costs in accordance with the contract and the Federal Acquisition Regulation (FAR); and (2) determine whether costs incurred, including labor, materials, and other direct costs (ODC) were invoiced in accordance with the contract and the FAR.

To accomplish our objectives, we conducted fieldwork at Burson-Marsteller's office in Washington, D.C., and other locations from February 2012 to February 2014. Our fieldwork consisted of these steps:

- We reviewed applicable laws and regulations, Burson-Marsteller policies and procedures, and legally binding contract documents, including:
  - Federal Acquisition Regulation (2005-2012)
  - Federal Travel Regulation
  - U. S. Government Accountability Office *Principles of Federal Appropriations Law* (Jan. 2004, Sep. 2008)
  - Burson-Marsteller policies and procedures related to contracting, project accounting, timekeeping, and invoicing (2011)
  - BEP Public Education and Awareness Program solicitation, proposal, and contract No. TEP-07-0003
- We interviewed Burson-Marsteller's Chief Financial Officer, Managing Director, and contract biller, and Direct Impact's Vice President to obtain information about Burson-Marsteller policies and procedures and the scope of work performed on the contract.
- We interviewed the Chief Information Security Officer of Young & Rubicam, Inc. to obtain an understanding of the

security and other controls over the reliability of Burson-Marsteller's computer processed data.

- We interviewed WebbMason, Inc.'s (WebbMason) Chief Financial Officer and the Account Executive on the Burson-Marsteller contract to understand WebbMason's work on the fulfillment process.
- We selected 25 Burson-Marsteller employees that worked on the Public Education and Awareness Program contract to test Burson-Marsteller's system of internal controls and determine an expected error rate for our statistical sample of labor charges. To obtain an overview of the knowledge and application of policies and procedures at all levels and across all task orders, we selected at least one employee that worked on each task order and at least one employee from each position level. We reviewed employee timecards and human resources files to verify Burson-Marsteller's timekeeping system was adequate and employees were charged at the correct rates. Of the 25 employees we selected, 11 were still employed by Burson-Marsteller. We interviewed these 11 Burson-Marsteller employees to (1) obtain information about Burson-Marsteller policies and procedures and the scope of work they performed on the contract, and (2) to validate that the 14 employees who were no longer employed by Burson-Marsteller worked on the contract.
- We reviewed all Burson-Marsteller task order vouchers, invoice back-up reports, and budget reports to obtain an understanding of their accounting and invoice reporting system and ensure documents reconciled with each other and with BEP billing records.
- We reviewed supporting documentation for transactions included in our samples to test for reasonableness, allowability, and allocability under the FAR.

- We reviewed employee timecards and human resources files for the non-fulfillment labor sample to verify that employees' time recorded was supported and properly approved, and that employees' time was charged at the correct rates.
- We reviewed WebbMason invoices issued between February 2007 and July 2011 and BrightKey, Inc. invoices issued between November 2007 and July 2011 to determine consistency, reasonableness, and markup amounts.
- We reviewed Burson-Marsteller and BEP's payment records to ensure the records reconciled.
- The steps we performed to complete audit sampling are described below.
  - We reviewed all line items on Burson-Marsteller's project cost reports for the 5-year contract period and sorted and categorized them by cost element to create a total universe of costs.
  - We reviewed fulfillment task orders separate from other task orders because they were hybrid type task orders, billed differently than other task orders, and identified as a high risk area. We performed a separate review of each of the billing categories in the fulfillment invoices: (1) firm-fixed-price (FFP) labor; (2) ODC for box processing; and (3) ODC for shipping, customs, and storage. We reviewed all FFP labor charges and ODC box processing charges and a non-statistical sample of the shipping and storage charges.
  - For labor costs charged to time and materials task orders and travel costs for services other than fulfillment, we sampled 77 items from each universe reviewed using a 90 percent confidence level and a low tolerable misstatement and a low expected error rate. We also selected an additional 11 high dollar

items from the travel costs universe to include in our testing, bringing the total travel sample size to 88.

**Table 1. Summary of Non-Fulfillment Sample**  
{REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

Cost Element	Sample (Number)	Sample		Universe Total (in Dollars)
		Total (in Dollars)	Universe (Number)	
Labor	77	\$53,865	47,501	[REDACTED]
Travel	88	73,904	683	[REDACTED]

Source: Burson-Marsteller invoice files for 2007 to 2011 and auditor analysis

- We selected and tested for FAR and contract compliance a sample of non-fulfillment billing categories including subcontractors and affiliates, Burson-Marsteller-owned companies,<sup>17</sup> FFP labor, professional services, meals and entertainment, refunds and credits, and ODC. We also selected and tested for FAR and contract compliance a sample of fulfillment shipping and storage costs. The samples selected were non-statistical because the universes were either too small for statistical sampling or they were determined to be low risk. We also selected and reviewed high dollar items, high risk items, and other selected items. Non-statistical samples are not projected to the total universe.

<sup>17</sup> Burson-Marsteller entered into intercompany agreements with wholly-owned international offices to obtain services needed on the BEP contract. The work performed on the contract by Burson-Marsteller’s international offices was charged at different rates than the work performed by domestic Burson-Marsteller offices.

**Table 2. Summary of Samples Using Non-Statistical Techniques**  
 {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

<b>Cost Element</b>	<b>Sample (Number)</b>	<b>Sample Total (in Dollars)</b>	<b>Universe (Number)</b>	<b>Universe Total (in Dollars)</b>
Fulfillment Shipping	111	\$963,218	822	██████████
Fulfillment Storage	13	103,774	62	██████████
FFP Labor Other than Fulfillment	15	518,900	15	██████████
Subcontractor & Affiliate	59	3,449,079	318	██████████
Meals and Entertainment	18	6,907	73	██████████
Burson-Marsteller- Owned Companies	32	557,530	203	██████████
Professional Services	7	56,217	80	██████████
Other Direct Costs	77	102,447	1,583	██████████
Refunds/Credits	10	37,215	36	██████████

Source: Burson-Marsteller invoice files for 2007 to 2011 and auditor analysis

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix 2  
Burson-Marsteller Response (see Appendix 3 for OIG Comments)



May 8, 2014

Ms. Kieu T. Rubb, Director  
Procurement and Manufacturing Audits  
Office of the Inspector General  
Department of the Treasury  
Washington, DC 20220

Dear Ms. Rubb,

I am responding to your email request of April 4, 2014, for our comments on the draft Report of Audit of Incurred Costs on the Bureau of Engraving and Printing's Public Education and Awareness Contract (TEP-07-003) with Young & Rubicam, doing business as Burson-Marsteller.

We at Burson-Marsteller sincerely respect the role of the Office of Inspector General in identifying and remediating errors or fraud, waste and abuse within Government operations, and we realize that the Federal audit process is a significant element of this role. However, as you know from our past conversations, we take exception to this draft Audit Report's findings, with the exclusion of one relatively minor administrative/clerical error.

This letter provides our position on each of the draft Audit Report's findings, with explanation in greater detail than in the past communications we have had with the Treasury audit staff. Since there were a number of BEP contracting officers and contract specialists assigned to this contract during its full term, we will use the reference "cognizant contracting officer" to refer to the person who was assigned the contract responsibility at the particular time relating to each of the draft Audit Report's observations. Our responses are presented in the same sequence as presented in the draft Audit Report.

**I. Materials Fulfillment**

Prior to responding specifically to this first point in the draft Audit Report, we want to address the draft Audit Report's erroneous characterization of this contract as Time and Materials (T&M) exclusively and to provide a point of clarification. Under contract TEP-07-003, the Government and the cognizant contracting officer clearly had the authority to issue fixed price task orders under what was considered to generally be a Time and Materials (T&M) contract. The following considerations address this matter:

General:

- Section H of the Contract states – "SPECIAL CONTRACT REQUIREMENTS". While Section H.1 on the Contract states "Time and Material", clearly the incorporation of clause H.7 as one of the

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OIG Comment 2

OIG Comment 3

“SPECIAL CONTRACT REQUIREMENTS” of Section H, allows for Government and Contracting Officer discretion and permits issuance of fixed price task orders when deemed required by the Government/Contracting Officer. This is consistent with FAR 52.243-1 which is incorporated into the solicitation as well as the contract.

- FAR 43.205(a)(1) provides: the contracting officer shall insert the clause at 52.243-1, Changes—Fixed-Price, “in solicitations and contracts when a fixed-price contract for supplies is contemplated.” (2) If the requirement is for services, other than architect-engineer or other professional services, and no supplies are to be furnished, the contracting officer shall use the clause with its Alternate I.
- The Original Solicitation includes FAR 52.243-1, again clearly indicating the intent of the Government to issue fixed price task orders under any potential award, and more importantly, also providing notice to all bidders prior to the submission of responses to the solicitation that fixed price task orders would be contemplated by the Government under any potential contract award, thereby putting all bidders on an equal footing as far as the Government’s intent subsequent to any future award.
- The Contract in Section I.1.1 also includes FAR 52.243-1, again clearly indicating the intent of the Government to potentially issue fixed price task orders under this contract, which the cognizant contracting officer ultimately chose to do and which was completely within their discretion and authority in deciding what the best contract type would be for the requisite task orders in question.
- Section E.1 Clauses Incorporated by Reference, Section E.1.1 includes FAR 52.246-4 Inspection of Supplies – Fixed Price, and 52.246-2 Inspection of Services – Fixed Price. The inclusion of these two clauses both in the Original Solicitation and our Contract again clearly indicated the intent of the Government that this contract contemplated the possibility of fixed price task orders.
- Section E.2(c) States that Payment Constitutes Acceptance. We were issued task orders that included fixed price components and were paid, thereby also indicating Government acceptance of these deliverables.

OIG Comment 4

OIG Comment 5

Further, the FAR prescribes policies and procedures and provides guidance for selecting a contract type appropriate to the circumstances of the acquisition.

- Pursuant to 16.103 (b), The Contracting Officer is encouraged to utilize different contract types or combinations of types during the course of an acquisition program.

OIG Comment 6

- Pursuant to 16.103 (c), during the course of an acquisition program, the Contracting Officer is discouraged from protracted use of cost-reimbursement or time and materials contract after experience provides a basis for firmer pricing.
- Pursuant to 16.104(a), (d) and (e), The Contracting Officer must consider a fixed price contract component and risk shifting to the contractor.

In Summary,

- The solicitation clearly puts all bidders on an equal footing by the incorporation of FAR 52.243-1, pursuant to 43.205, noting the intent of the Government to potentially issue task orders that included fixed price components under any potential award.
- The same clause is also included in our resultant contract with the Government, again putting the contractor on notice that the Government will potentially issue task orders that included fixed price components under this contract.
- The Government did in fact issue task orders that included fixed price components which the cognizant contracting officer was clearly permitted and encouraged to do under FAR 43.205, FAR 16.103, FAR 16.104 and FAR 52.243-1.
- We performed according to the terms of the task orders issued to us and the Government accepted these deliverables according to Section E.2(c) of the contract, by processing our invoices for payment.
- Section H of the Contract covers – “SPECIAL CONTRACT REQUIREMENTS”. While Section H.1 on the Contract states “Time and Material”, clearly the incorporation of clause H.7 as one of the “SPECIAL CONTRACT REQUIREMENTS” of Section H, allows for Government and Contracting Officer discretion and permits issuance of task orders that included fixed price components when issuing Task Orders under this contract when deemed required by the Government/Contracting Officer and pursuant to FAR 52.243-1 which is incorporated into the solicitation as well as the contract.
- The numeric precedence of Section H.1 relative to Section H.7 in Section H overall, does not nullify the plain meaning of the language in section H.7 permitting the Contracting Officer to issue task orders that included fixed price components under the contract.
- The section of FAR 16.1 as noted above and below, clearly encourages and in some cases requires the Government/Contracting Officer to seek out opportunities where fixed price contracting options make sense in the interest of limiting risk to the Government.

OIG Comment 7

Based on the regulatory and contractual evidence noted above, we assert that this solicitation and the resultant contract clearly contemplated the issuance of task orders that included fixed price components and that the cognizant contracting officer did have the authority to issue such task orders under this contract.

With the foregoing as background on the propriety of fixed pricing, the following are our responses to the specific audit report findings:

(a) Finding: Unsupported Box Processing Charges

Burson-Marsteller Comments: Burson-Marsteller maintains that the portion of work described, as "box processing activities" was fixed price and not time and materials, as premised in the draft Audit Report. The succession of fulfillment task orders were classified by the cognizant contracting officer as "hybrid" task orders in that they encompassed both firm fixed price and time and material elements. In regards to the box processing charges in question, our proposal to the BEP was for a fixed price-per-box, with one price – domestic and another price - international. This fixed unit price covered (a) cartons, inside boxes, packing materials; (b) direct labor distributed on a per box basis associated with call center, order processing and other such time expenditures performed by Direct Impact employees; and (c) materials handling and inventory management work provided by our subcontractor, WebbMason, and their subcontractor. The box processing activities were clearly defined in Burson-Marsteller's proposal to the BEP of February 23, 2007 as being on a "fixed cost (sic) basis." (See Attachment 1.) [Burson-Marsteller from time to time has used the term "cost", "fee," and "price" interchangeably, and not per the distinction that the Federal Acquisition Regulation might provide. Similarly, some Burson-Marsteller documentation throughout the life of the contract may have also used "fixed price," "firm fixed price," "fixed fee," and "fixed cost" interchangeably.] Notwithstanding the terminology, the principle remains that the charge to the BEP was fixed on a unit per box basis, one price for domestic and one for international.] The "Other Direct Costs" (ODCs) in the proposal to the BEP were storage, shipping costs, travel and transportation reimbursable expenses.

Our proposal for an all-inclusive fixed price per box including labor charges associated with box processing was accepted by BEP and the cognizant contracting officer in accordance with their clearly defined authority and a task order was duly issued funding this effort as proposed.

As an analogy, this is similar to a hotel chain purchasing a large quantity of sofas at a fixed unit price delivered to various destinations, while providing to the sofa manufacturer customer-furnished upholstery fabric (similar to Burson-Marsteller being furnished the material that would become the contents of the boxes). While there are indeed materials involved in producing and delivering the end product sofa, such as wood, stuffing, springs and other items, as well as labor, packaging and shipping to the destination, it is still a fixed unit price transaction. As such, in our contractual arrangement with the BEP, there is no requirement in the Federal Acquisition Regulation for us to make post-award analyses and adjustments to the costs that comprise the overall total unit firm-fixed price. Nor was there a requirement to account for either Direct Impact or subcontractor employees' time spent providing

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Burson-Marsteller Response (see Appendix 3 for OIG Comments)

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service to the BEP's program on any time-and-attendance system for work performed under this fixed-price portion of the contract.

Further details regarding the agreement between the BEP and Burson-Marsteller:

- All parties are in agreement that the orders for fulfillment materials did not process themselves.
- All parties are in agreement that there was an actual labor component required and expended for this activity (See labor tasks associated with processing in Attachment 2).
- All parties agree that during the course of this contract, there were orders placed and processed for 33,221 boxes of materials
- Given the \$726,438 of "unsupported" box processing charges, this would work out to an average labor cost per box of \$21.87.
- Based on an average labor rate of \$106.76 for the three lowest tier contractual labor categories (Associate, Client Executive and Client Staff Assistant over the 5 year contract period) involved in the processing activity, this would equate to an average of 12.3 minutes of labor per order processed.
- As disclosed during the course of the audit, our approved timekeeping system and policy in place during the performance of this contract only allowed for time entry in a minimum of 15 minute increments.
- If Burson-Marsteller were to have logged actual time against these task orders as suggested by the draft Audit Report, the Government would have been charged a significantly higher amount than the amount that was charged using the fixed price per box rate as authorized by the BEP cognizant contracting officer.
- As referenced above, we have included a listing of tasks involved in the processing of an order for reference to provide a clearer understanding of the labor performed during the processing activity in Attachment 2.

In summary, we developed a fixed price per box proposal to the BEP for all costs, including labor, involved in box processing activities. Our proposal was accepted by the BEP and deemed fair and reasonable and approved by the cognizant contracting officer and a task order was issued funding this activity as proposed.

In our letter to the Office of the Inspector General of January 18, 2013, we provided an extensive explanation for the box processing work being fixed price per box. A copy of that letter (Attachment 3) is provided with this response, with the exclusion of the policy documents that were transmitted to the audit staff at that time and which are not germane to this current discussion on the type of contractual arrangement for this work.

The draft Audit Report asserts that Burson-Marsteller prepared documents in the pre-award and during contract performance supports the box processing charge as an ODC. The pre-award proposal did list the box processing under ODCs, but our initial formal task order response proposed a fixed price per box

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Burson-Marsteller Response (see Appendix 3 for OIG Comments)

OIG Comment 8

which included the above referenced labor component as a discreet cost element. This fixed price per box price was deemed to be fair and reasonable by the BEP cognizant contracting officer. Again, we refer to the February 23, 2007 proposal (Attachment 1) to the BEP that clearly shows the difference between the fixed price per box cost elements, which included labor, and the listed ODCs, shipping (both domestic and international), customs/duties/VAT/taxes, etc., storage, recycling, travel and transportation.

Finally, we take exception to the assertion that labor charged as part of the fixed price per box did not comply with contract terms. As amply demonstrated above, this solicitation and the resultant contract clearly contemplated the issuance of fixed price type task orders and that the cognizant contracting officer clearly possessed the requisite authority to issue fixed price task orders under this contract as allowed by the terms and as encouraged by FAR 16.1.

(b) Finding: Unreasonable Box Processing and Storage Charges

Burson-Marsteller Comments: Burson-Marsteller was not privy to the specific arrangement between our first-tier subcontractor, WebbMason, and the second-tier subcontractor, BrightKey. The draft Audit Report cites BrightKey's pricing to WebbMason and the latter's mark-up to those rates, asserting that this mark-up was unreasonable, based on the audit staff's assertion that there was no value-added services provided by WebbMason. As noted, we were unaware of BrightKey's pricing to WebbMason and, for all we know, there could be a long-standing strategic relationship between the two firms that warranted a very low "friend-of-the-firm" price to WebbMason. We also note that the draft Audit Report states that WebbMason was not named as a subcontractor on any contract documents.

The WebbMason-BrightKey structure was established in the previous five-year contract. While Burson-Marsteller was not required to identify its subcontractors to the BEP, the BEP's cognizant contracting officer's technical representative was aware of WebbMason's relationship with Burson-Marsteller, since she visited the warehouse facility and met Craig Rathbone, WebbMason's account representative. The draft Audit Report cites a statement attributed to WebbMason's chief financial officer that his firm performed no substantive work to warrant the mark-up of BrightKey's pricing. Burson-Marsteller takes exception to this assertion. More specifically, WebbMason's chief financial officer has provided written descriptions to Burson-Marsteller, clearly outlining WebbMason's role and value added to the project (Attachment 4).

Thus, a fee for the services performed by WebbMason is clearly justified. Each WebbMason box processing invoice reflected the sum total of their services fee plus BrightKey's charges to WebbMason. The draft audit report mischaracterizes WebbMason charges as mark up, when in fact WebbMason clearly provided value added project and inventory management services throughout the course of the contract as attested to by their chief financial officer.

However, in the final analysis it is irrelevant to define what services WebbMason performed because, as noted earlier, these deliverable services were provided to BEP on a fixed price per box basis by Burson-Marsteller. From BEP's perspective, the only elements of note are the fixed unit prices and the total number of units (boxes) prepared for delivery to domestic destinations and to international destinations.

(c) Finding: Unallowable Shipping Charges

Burson-Marsteller Comments: As noted in the draft Audit Report, there were questioned costs of \$640 in shipping charges that were billed to the BEP by Burson-Marsteller. With some change-over of accounting personnel during the complete course of the BEP contract and the vast number of invoices generated during this time, there are no means for determining the cause of this administrative/clerical error in allocating these questioned costs to the BEP. As a result of the finding in this draft Audit Report, we have emphasized to our accounts receivable staff the importance of examining outbound invoices to verify that they, in fact, relate to the specific client's project work. We will refund this amount to the BEP, upon receipt of the current BEP contracting office's instructions regarding how to remit payment.

OIG Comment 9

**II Other Direct Costs Questioned**

(a) Finding: Unallowable Meal Charges

Burson-Marsteller Comments: As noted in the draft Audit Report findings, Burson-Marsteller did provide meals to mid-level and senior managers of the BEP and of the Board of Governors of the Federal Reserve System (FED). These meals were provided during lengthy program meetings between our staff working on the BEP project and officials of both the BEP and the FED; such meetings spanned several hours, including the normal mid-day meal time. Providing lunches to the meeting attendees was deemed to be beneficial in achieving the maximum efficiency of these Government personnel's valuable time at the meetings.

It is our understanding that the funding for this BEP contract was derived from fees received by the BEP from the FED, and that these are not "appropriated funds." Had appropriated funds been used in a Government contract, we would indeed have been wary about furnishing meals. Given the funding source for our BEP contract, it was our understanding that providing such meals was not in violation of any statutory or regulatory restrictions that pertain to the expenditure of appropriated funds; hence, the draft Audit Report's reference to the GAO *Principles of Federal Appropriations Law* seems very much out of place, since this was not an appropriated-fund contract. Further, the draft Audit Report cites that "A total of <sup>REDACTED</sup> of meals and entertainment costs were invoiced (emphasis added) . . ." While the phrase "meals and entertainment" is commonly used in commercial and tax-related expense references, we want to emphasize that there was absolutely no "entertainment" provided to these BEP and FED employees – only working meals were provided. (REDACTED - FOIA EXEMPTIONS 4 and 6, 5 U.S.C. 552(b)(4), (b)(6))

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Burson-Marsteller Response (see Appendix 3 for OIG Comments)

We take exception to the draft Audit Report's statement that the \$2,275 cost of meals is unreasonable. Based on our records of attendees, this amounts to an average of \$23.19 per meal. We judged this to be reasonable, *i.e.*, the price that a prudent person would pay for a meal in the Washington, DC market area, with delivery to an office conference room location. The BEP's cognizant contracting officer also obviously deemed the price to be allowable, as well as fair and reasonable, in that the invoices for reimbursement were approved and paid.

We have great concern about the draft Audit Report's recommendation that, if the current BEP cognizant contracting officer reverses the previous cognizant contracting officer's approval of the meal charges (based on some regulation other than those pertaining to appropriated funds expenditures), Burson-Marsteller should refund the \$2,275 to the BEP. Such an action would put Burson-Marsteller as well as the affected BEP and FED employees in an untenable, compromising position of our offering, and their accepting, a meal that could be construed to be an inappropriate gratuity to Federal employees. If the previous approval of the cognizant contracting officer is reversed, we suggest that the only feasible legal course of action would be to require the specific employees to reimburse the BEP. However, we still stand by our understanding that, since no appropriated funds were used for this contract and the BEP's source of funding was the FED, there was no wrongful provision of these meals to the BEP and FED employees during these meetings that were critical to the BEP's program and our fulfilling the Bureau's requirements.

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(b) Finding: Unsupported Meal Charges

Burson-Marsteller Comments: As discussed with Treasury auditors, the receipt in the amount of \$111 was admittedly difficult to read. The meal was provided in a Russian restaurant which we believe provided the receipt on what appears to be much thinner paper than standard 20 lb. stock used in the United States. The original text of the price paid was written lightly and the overall quality of the text was illegible due to photocopying, scanning, and/or facsimile transmission. Consequently, at the time of invoicing the BEP, Burson-Marsteller management agreed to accept our trusted employee's written affirmation on the invoice as to the amount spent, date, etc. Since the time when the Treasury audit staff raised the question on this particular invoice, we have made extensive efforts to secure the original piece of paper from the employee, to no avail; we have only the annotated copy. The annotated copy clearly includes the establishment name and telephone number establishing the veracity and existence of the meal provider. The fact that our employee provided supporting clarification of the amount that was not clearly visible should not nullify the allowability of this particular transaction.

The meal expenditure was directly related to Burson-Marsteller's performance of work in Russia and, thus, a legitimate expense and allocable to this contract. Burson-Marsteller deemed the price of \$111 for a meal for 3 persons to be fair and reasonable for the marketplace locale at the time of invoicing the BEP and, obviously, determined to be fair and reasonable by the BEP's cognizant contracting officer who approved the invoice and authorized payment of the reimbursement request.

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Appendix 2  
Burson-Marsteller Response (see Appendix 3 for OIG Comments)

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On behalf of Burson-Marsteller, I want to express our appreciation for the opportunity to comment on the draft Audit Report. As noted above, we have significant differences of opinion with the assertions contained in much of the draft Audit Report. We have attempted to capsule the key elements of our position in this letter, but would be happy to provide further detail on any of our comments, if desired.

Sincerely,

*/s/*

Jerome Selick  
Chief Financial Officer, USA

Attachments:

1. Task Order 1 proposal dated February 23, 2007
2. Tasks Associated with Per Box Processing Firm Fixed Price
3. Burson-Marsteller letter, January 18, 2013
4. WebbMason letter, April 15, 2014

Appendix 2  
 Burson-Marsteller Response (see Appendix 3 for OIG Comments)

03/22/2007 13:24 FAX 2028742200 BUR OF ENG AND PRTG 002/004

Attachment 1

**BEP** FORM 7500 REV. 3-2003 **ORDER FOR SUPPLIES OR SERVICES** *MAH 3/15/07* PAGE 1 OF 1

**IMPORTANT: Mark all packages with purchase order number-Block 3.**

1. DATE OF ORDER <b>03/13/2007</b>	2. CONTRACT NO. <b>TEP-07-0003</b>	3. ORDER NO. <b>V07-16001</b>	4. REQUISITION/REFERENCE NO. <b>/</b>		
5. ISSUING OFFICE <b>BUREAU OF ENGRAVING AND PRINTING OFFICE OF PROCUREMENT 14TH AND C STREETS, SW WASHINGTON, DC 20228</b>		6. SHIP TO (Customer and Address, ZIP Code) <b>BUREAU OF ENGRAVING AND PRINTING D ST BETWEEN 13TH &amp; 14TH STS SW WASHINGTON DC 20228</b>			
7. TO CONTRACTOR (Name, Address, ZIP Code) <b>BURSON-MARSTELLER 1110 VERMONT AVENUE NW TENTH FLOOR WASHINGTON DC 20005</b>		8. TYPE OF ORDER <input type="checkbox"/> A. PURCHASE-Reference your procurement (number/date):  <input checked="" type="checkbox"/> B. DELIVERY-This order is subject to the provisions contained in this order and in the terms and conditions of the referenced contract.			
9. ACCOUNTING AND APPROPRIATIONS DATA <b>ACCOUNT: BEP 02660 005932</b>		10. REQUISITIONING OFFICE <b>SEE BLOCK 4</b>			
11. MODIFICATION NO.	12. BUSINESS CLASSIFICATION (Check appropriate boxes) <input type="checkbox"/> SMALL <input type="checkbox"/> OTHER THAN SMALL <input type="checkbox"/> DIS-ADVANTAGED <input type="checkbox"/> WOMEN OWNED <input type="checkbox"/> HUBZONE				
13. F.O.B. POINT <b>DESTINATION</b>	15. RESERVED	16. DELIVERY/COMPLETION OF SERVICE (Date) <b>03/31/2007</b>	17. DISCOUNT TERMS <b>0.00% 0 NET 30</b>		
14. PLACE OF INSPECTION AND ACCEPTANCE <b>SEE BLOCK 6</b>					
18. SCHEDULE					
ITEM NO. (A)	SUPPLIES OR SERVICES (B)	QUANTITY ORDERED (C)	UNIT (D)	UNIT PRICE (E)	AMOUNT (F)
<b>TASK ORDER NO. 1</b> *****					
AS PART OF THE INTERNATIONAL PUBLIC EDUCATION AND AWARENESS PROGRAM TO FACILITATE WORLDWIDE TRANSITION TO A NEW GENERATION OF CURRENCY, THE CONTRACTOR SHALL PROVIDE OVERSIGHT FOR THE STORAGE AND FULFILLMENT OF ALL DOMESTIC AND INTERNATIONAL EDUCATIONAL MATERIALS, TO ENSURE THAT CASH HANDLERS AND OTHERS WHO REQUEST SUCH MATERIALS RECEIVE THEM AS ORDERED AND IN A TIMELY MANNER.					
001 07PU-001 RM. 50 1.0000 DL \$899,202.0000 \$899,202.00 PUBLIC EDUCATION PROGRAM COTR: HELEN GAND 202-874-1211, ROOM 509-M					
BUYER: FERNANDO TONLETE (202) 874-2494 OMB CONTROL NOS. 1505-0080 AND 1505-0081					
19. MAIL INVOICE TO BUREAU OF ENGRAVING AND PRINTING ACCOUNTING DIVISION - OFM ATTN: RM 302-28A 14TH AND C STREETS, SW WASHINGTON, DC 20228				18(C). PAGE TOTAL <b>\$899,202.00</b> 18(D). GRAND TOTAL <b>\$899,202.00</b>	
20. UNITED STATES OF AMERICA BY: (Signature) <i>[Signature]</i>		DATE: <b>3/21/07</b>		21. NAME: (Title, Contracting/Creating Office) <b>CLAUDIA ASIHENE</b> , Contracting Officer	
DELIVERIES ARE ACCEPTED BETWEEN 7:30 AM AND 2:30 PM WEEKDAYS, HOLIDAYS EXCLUDED					
Deliveries to Washington, DC: vendors must call (202) 874-2333 to make a delivery appointment at least 24 hours in advance. OVER THE ROAD VEHICLES HAVING AN OVERALL HEIGHT EXCEEDING 12'6" EMPTY, OR AN OVERALL LENGTH EXCEEDING 40' CANNOT BE ACCOMMODATED AT THE RECEIVING PLATFORM.					
Deliveries to Ft. Worth Texas: vendors must call (817) 847-3822 to make a delivery appointment at least 24 hours in advance. <span style="float: right;">10 of 22</span>					

Appendix 2  
 Burson-Marsteller Response (see Appendix 3 for OIG Comments)

OIG Comment 11

**NexGen Public Education and Awareness Campaign**  
**Contract TEP-07-0003**  
**Fulfillment Task Order**  
**Burson-Marsteller Cost Proposal**  
**Base Year - February 1, 2007 through September 30, 2007**  
**Re-submitted: February 23, 2007**

Labor Category	Key Personnel Name	Key Personnel Position	Hours	Rate	Total
Managing Director			8	\$	\$
Managing Director			24	\$	\$
Director			72	\$	\$
Managing Director			67	\$	\$
Director			0	\$	\$
Manager			770	\$	\$
Senior Associate			948	\$	\$
Associate			0	\$	\$
Client Executive			0	\$	\$
Client Staff Assistant			779	\$	\$
<b>Total Estimated Labor</b>					<b>\$ 450,687</b>
<b>Fixed Costs per box</b>					
Processing Fee - Domestic	estimated boxes 2630		per box	\$	\$
Processing Fee - International	estimated boxes 1340		per box	\$	\$
<b>Total Estimated processing &amp; shipping at fixed cost per box</b>					<b>\$ 117,625</b>
<b>Other Direct Costs</b>					
Shipping - Domestic				\$	\$
Shipping - International				\$	\$
Customs/Duties/VAT/Taxes/Etc.				\$	\$
Storage				\$	\$
Recycling				\$	\$
<b>Total Estimated Other Direct Costs</b>					<b>\$ 324,860</b>
<b>Travel</b>					
Accommodations/Per Diem				\$	\$
Transportation				\$	\$
Subsistence/Per Diem				\$	\$
<b>Total Estimated Travel</b>					<b>\$ 6,000</b>
<b>TOTAL</b>					<b>\$ 899,202</b>

**DESCRIPTION OF LABOR SERVICES PROVIDED BY: (other than key personnel)**

**Managing Director:** Will cover overall financial accountability and senior counsel. Also, offer strategic advise and counsel on international fulfillment.

**Manager:** Will cover project oversight, day-to-day counsel and technical responsibility of the web-based applications. Also, will coordinate with international team to ensure international orders are processed.

**Detail for Fixed Costs per box:**  
 Processing for each box shipped will be billed at a cost of \$ for domestic and a cost of \$ for international. The processing fee includes packaging materials, postage, and labor necessary to process a box. Also includes cost associated with returns, exceptions, rush orders, copies, phone expenses, pallet receiving, and overall warehouse management.

**Other Direct Cost Details**  
 VAT & customs estimate is based on program history. Actual expenses will be billed to the BEP at cost.  
 Shipping & freight estimates are based on program history. Actual expenses will be billed to the BEP at cost.

**Materials Availability**  
 The GPO will notify B-M/DI of the exact quantities of each material that is delivered to PMDS (the fulfillment house) when fulfillment begins. PMDS will send B-M/DI a daily, per-material inventory status report once the materials begin shipping from the printer. Once all of the material has arrived at PMDS, they will send weekly inventory reports to B-M/DI. If, at any time, the inventory on any given material has been depleted by 75 percent, B-M/DI will notify the client and arrange for the material to be restocked or discontinued based on BEP's direction.

**Order Limits**  
 Prior to the commencement of fulfillment activity, the client will determine order limits for each material. Our programmers have modified our database so that any order(s)—or portion thereof—exceeding the established limit will automatically be "flagged." The "flagged" orders will be saved in a word document, which we will send to the COTR as orders are processed. Once the order has been approved, it will be reincorporated into the main database, and processed immediately.

**BILLING TERMS:**  
 B-M/DI will invoice the BEP monthly for services described in this task order. B-M/DI will invoice the BEP a monthly fixed fee of \$6,335.00 for the months of February - September 2007. These fees are outlined in the budget as labor hours. In addition, included with the monthly flat fee there will be a fluctuating fee based on the number of orders placed by box, which is described in the budget as "fixed costs per box". BEP will be invoiced only for orders processed. Finally, BEP will be invoiced monthly for actual costs incurred for VAT, customs charges, shipping, and warehouse storage costs. Each monthly invoice will include a description of each of the fees.

OIG Comment 12

**Attachment 2**

**Tasks Associated with Per Box Processing Firm Fixed Price**

1. Corresponding with customers: Corresponding with customers regarding delivery issues
2. Corresponding with customers: Emailing customers regarding bad address or bad phone
3. Corresponding with customers: Emailing customers regarding how they will use the materials
4. Corresponding with customers: Responding to email, fax or phone inquires
5. Daily Orders: Adjusting the shipping address on orders to CIS countries.
6. Daily Orders: Exporting orders from website, reviewing orders for incomplete address/phone number, identifying CIS county orders, identify orders from countries with issues and importing orders into launch program.
7. Daily Orders: Importing the tracking file, checking file for CIS country shipments, creating blast tracking and sending blast email.
8. Daily Orders: Interacting with UPS regarding shipments with issues
9. Daily Orders: Inventory report
10. Daily Orders: Preparing commercial invoice, packing slip and notification letter for CIS country orders to be forwarded to PBN.
11. Daily Orders: Processing Orders, reviewing order file for any special instructions (such as Argentina rule that each shipment must be less than 44 pounds), reviewing order file to ensure shipping address on orders to CIS countries was modified and preparing email with special instructions, if any and sending order file to fulfillment warehouse
12. Daily Orders: Reviewing Bad Table (Contains orders with foreign characters or illegible addresses), reviewing duplicates and reviewing exceptions
13. Daily Orders: Reviewing UPS notifications
14. Daily Orders: Updating CIS country tracker
15. Daily Orders: Updating tracking document for all countries exception CIS countries
16. Exceptions: Incorporating BEP's feedback
17. Exceptions: Interacting with Burson to obtain their approval
18. Exceptions: Preparing document for Burson and BEP review
19. Interactions with BrightKey (outside of sending and receiving files)
20. Interactions with PBN (outside of emailing documents needed for shipments)
21. Unverified Orders: Exporting orders from website, importing into program/running report and sending "Second Attempt" blast email
22. Unverified Orders: Compiling results of "Second Attempt" blast email
23. Unverified Orders: Compiling results of "Third Attempt" blast email and phone calls
24. Unverified Orders: Placing "Third Attempt" calls to domestic customers
25. Unverified Orders: Reviewing undeliverable emails and responses to "Second Attempt" blast email first week

26. Unverified Orders: Reviewing undeliverable emails and responses to "Second Attempt" blast email second week
27. Unverified Orders: Reviewing undeliverable emails and responses to "Third Attempt" blast email second week
28. Unverified Orders: Running report of results of "Second Attempt" blast email, creating "Third Attempt" blast email list, creating "Third Attempt" domestic call list and sending "Third Attempt" blast email.
29. Weekly Tasks: Reviewing weekly reports from BrightKey, including returned shipments

Appendix 2  
Burson-Marsteller Response (see Appendix 3 for OIG Comments)



**Burson-Marsteller**

Attachment 3

Burson-Marsteller  
1110 Vermont Avenue, NW  
Suite 1200  
Washington, D.C. 20005-3554  
[www.bm.com](http://www.bm.com)

T 202.530.0400  
F 202.530.4500

January 18, 2013

Eileen J. Kao  
Treasury Office of the Inspector General  
740 15<sup>th</sup> Street N.W. Suite 500  
Washington, D.C. 20220

Dear Ms. Kao:

This letter is in response to the remaining requests related to Direct Impact.

1. Re: the following question raised in your December 19, 2012 email: *Can you please clarify if the BM policies and procedures you have provided (Timesheet Policy, Travel and Entertainment Policy, Master Client and Project Policy and Procedures) apply to all BM divisions/departments (Proof, Direct Impact, PSB, etc)?*
  - Please note that PSB, is not a Burson-Marsteller organization and therefore does not follow these policies.
  - With the exception of the Timesheet Policy, all other Burson-Marsteller policy and procedures documents apply to Proof and Direct Impact.
  - The Timesheet Policy applies only to Burson-Marsteller employees. You will note that our standard policy is to account for time in 15-minute increments. (In this context, it should be noted that the fixed price per box approach discussed below allowed us to construct our price using time increments of less than 15-minutes in our assumptions per box thus providing the most favorable pricing. Both Proof and Direct Impact do not have a standard timesheet policy, but do require its employees to submit timesheets whenever a client or a contract provision so requires.

Copies of applicable policy and procedures documents are enclosed.

2. RE: item # 21 on the Document Request file - *Please provide Direct Impact's accounting policies and procedures for accumulating labor costs. If policies and procedures do not exist, please articulate Direct Impact's methodology for accumulating costs.*

14 of 22  
PERSPECTIVE

OIG Comment 13

Depending upon the specific nature of a particular task order and with approval of the BEP Contracting Office, Direct Impact had different methods for charging the labor:

- a. For task orders issued by BEP on a T&M basis, Direct Impact maintained employee timesheets and charged for actual hours expended in accordance with the contract rate table.
- b. For the Fulfillment task orders that were issued by BEP for firm-fixed-price with other direct costs, the proposed price for labor included all elements of performance with the exception of the fixed fee per box processing tasks. As with all firm-fixed-price contracts, we, as the contractor, assumed all risks if our costs were to exceed the contract price. The Contracting Officer deemed this approach to be fair and reasonable and is in accordance with the FAR stating the benefits to the Government of this contract type at section 16.202-1: "A firm-fixed-price contract provides for a price that is not subject to any adjustment on the basis of the contractor's cost experience in performing the contract. This contract type places upon the contractor maximum risk and full responsibility for all costs and resulting profit or loss. It provides maximum incentive for the contractor to control costs and perform effectively and imposes a minimum administrative burden upon the contracting parties." As we have stated earlier, Section H of the Contract states – "SPECIAL CONTRACT REQUIREMENTS". While Section H.1 on the Contract states "Time and Material", clearly the incorporation of clause H.7 as one of the "SPECIAL CONTRACT REQUIREMENTS" of Section H, allows for Government and Contracting Officer discretion and permits issuance of Fixed Price Task Orders when issuing Task Orders under this contract when deemed required by the Government/Contracting Officer and pursuant to FAR 52.243-1 which is incorporated into the solicitation as well as the contract.

OIG Comment 14

- c. For the Fulfillment task orders a firm-fixed-price per box was developed and included the cost elements associated with processing an order as outlined below.

The per box fee was proposed and accepted by the BEP Contracting Officer as a FIRM-FIXED-price per box and charged based on the actual total number of boxes shipped, and not a direct cost. The fixed price per box was a variable unit price component of the task order. As such, it is not subject to ex post facto adjustment in either direction, upward or downward. This firm-fixed-price per box was calculated each year and presented to the BEP annually as task orders were issued. BEP deemed these per box fees to be fair and reasonable again in accordance with the

OIG Comment 15

FAR stating the benefits to the Government of this contract type at section 16.202-1: "A firm-fixed-price contract provides for a price that is not subject to any adjustment on the basis of the contractor's cost experience in performing the contract. This contract type places upon the contractor maximum risk and full responsibility for all costs and resulting profit or loss. It provides maximum incentive for the contractor to control costs and perform effectively and imposes a minimum administrative burden upon the contracting parties." The firm-fixed-fee per box price included, a labor cost element from DI's call center employees who received and initiated orders for materials placed by phone, fax or website. Additional cost components included warehouse labor to pick and pack, costs associated with returns, exceptions, custom forms, rush orders, copies, phone expense (long distance + 800#), pallet receiving and overall warehouse management costs, packaging materials, and miscellaneous postage. The per-box fee, which differed from domestic to international, stayed constant for the duration of each contract year. The per-box fee was negotiated under the previous BEP contract (i.e., prior to the award of the 2007 contract) and was reviewed and approved by the Contracting Officer (CO) and the Contracting Officer's Technical Representative (COTR) at that time.

Since the Fulfillment portion of the program had to continue without interruption from the expiration of the earlier contract until the next contract (TEP-07-0003) was awarded, we maintained continuity in pricing. To cover this interim period and at the request of BEP and the Contracting Officer, the BEP provided a modification to extend the Fulfillment services until the new contract and task order was awarded. To provide you specific dates, the original end date of the Fulfillment task order under the previous BEP contract was September 30, 2006; a modification was executed that extended the task order end date to March 31, 2007. When services commenced under the new contract, TEP-07-0003, the proposed pricing methodology was consistent with what BEP had originally contracted for in the previous contract and, therefore, the CO approved and accepted both the methodology and the pricing as fair and reasonable, and issued the firm-fixed-price task order for Fulfillment that included the fixed fee per-box unit pricing. All other costs, were established as ODCs. The activities required to perform the Fulfillment per box processing tasks that were contemplated and incorporated into the agreed upon fixed fee per box price are illustrated in the following table:

Appendix 2  
 Burson-Marsteller Response (see Appendix 3 for OIG Comments)

OIG Comment 12

Tasks Associated with Per Box Processing Fee
Corresponding with customers: Corresponding with customers regarding delivery issues
Corresponding with customers: Emailing customers regarding bad address or bad phone
Corresponding with customers: Emailing customers regarding how they will use the materials
Corresponding with customers: Responding to email, fax or phone inquires
Daily Orders: Adjusting the shipping address on orders to CIS countries.
Daily Orders: Exporting orders from website, reviewing orders for incomplete address/phone number, identifying CIS county orders, identify orders from countries with issues and importing orders into launch program.
Daily Orders: Importing the tracking file, checking file for CIS country shipments, creating blast tracking and sending blast email.
Daily Orders: Interacting with UPS regarding shipments with issues
Daily Orders: Inventory report
Daily Orders: Preparing commercial invoice, packing slip and notification letter for CIS country orders to be forwarded to PBN.
Daily Orders: Processing Orders, reviewing order file for any special instructions (such as Argentina rule that each shipment must be less than 44 pounds), reviewing order file to ensure shipping address on orders to CIS countries was modified and preparing email with special instructions, if any and sending order file to BrightKey
Daily Orders: Reviewing Bad Table (Contains orders with foreign characters or illegible addresses), reviewing duplicates and reviewing exceptions
Daily Orders: Reviewing UPS notifications
Daily Orders: Updating CIS country tracker
Daily Orders: Updating tracking document for all countries exception CIS countries
Exceptions: Incorporating BEP's feedback
Exceptions: Interacting with Burson to obtain their approval
Exceptions: Preparing document for Burson and BEP review
Interactions with BrightKey (outside of sending and receiving files)
Interactions with PBN (outside of emailing documents needed for shipments)
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Unverified Orders: Compiling results of "Second Attempt" blast email
Unverified Orders: Compiling results of "Third Attempt" blast email and phone calls
Unverified Orders: Placing "Third Attempt" calls to domestic customers
Unverified Orders: Reviewing undeliverable emails and responses to "Second Attempt" blast email first week
Unverified Orders: Reviewing undeliverable emails and responses to "Second Attempt" blast email second week
Unverified Orders: Reviewing undeliverable emails and responses to "Third Attempt" blast email second week
Unverified Orders: Running report of results of "Second Attempt" blast email, creating "Third Attempt" blast email list, creating "Third Attempt" domestic call list and sending

"Third Attempt" blast email.

Weekly Tasks: Reviewing weekly reports from BrightKey, including returned shipments

3. RE: item # 22 on the Document Request file & your January 4, 2013 e-mail you asked the following questions:

1. *Can you please provide the rationale for the fixed price per box cost that was charged on the contract? How was the price per box (domestic and international) estimated? What different charges/services made up the price per box fee and how were those charges estimated?*

We believe that the response provided above under 2. b. and c. provides sufficient information to support the rationale for the fixed per box fee. The assumptions used to formulate the price were based on actual experience gained under the previous contract. The overarching rationale allowed for the per box fee to remain fixed and controlled in conditions where there were many variable factors thus allowing us the contractor to assume the risk and provide the best pricing to the BEP. The work elements that are contained in the fixed fee per box are illustrated in the above table.

*Please provide us with the documentation contemporaneous with the development and submission of the Business Management Proposal.*

In the Business Management proposal we stated the following: "By applying lessons learned from previous programs, as well as unique insight gleaned from previous experience working with the Bureau of Engraving and Printing (BEP), the Board of Governors of the Federal Reserve (FRB) and the United States Secret Service (USSS) on educating the public about the New Currency Design (NCD) Series and Series 2003 currency redesigns, Burson-Marsteller will maximize the cost effectiveness of the public education program."

Further, the Technical proposal stated under the Fulfillment section that "fulfillment would be carried out consistent with previous contract."

2. *In addition, since the per box fee was a direct cost, please provide support for actual per box costs? How did Direct Impact employees differentiate between the work performed on the firm fixed price piece and the fixed price per box piece?*

As stated previously, the per box fee was not a direct cost, but rather a fixed fee per box unit pricing which incorporated a variety of cost elements including a labor component. Direct Impact employees were able to differentiate between the work performed on the fixed price piece and the fixed price per box piece based on the detailed description of work performed in each which has been

OIG Comment 16

OIG Comment 17

provided in the above chart describing tasks associated with processing fee and the below chart describing tasks associated with overall fulfillment.

Finally, it is our understanding that our price to the BEP for this work, as with all the tasks under this contract, was closely reviewed and evaluated in a competitive proposal environment, and determined by the Government CO to be "fair and reasonable," within the meaning and requirements of the FAR. Additionally, we believe, our price proposed to BEP fell significantly below the Government's own cost estimate, which we trust you have access to.

Level	Tasks associated with overall Fulfillment
Director	Drafting Recommendations - inventory, recycling
Director	Interaction with interactive team regarding new situation with the online order form and any other issues with current order form
Director	Interaction with international team
Director	Interaction with program admin team (monthly report and new situation with the online order form)
Director	Interaction with materials team
Director	Interaction with BEP/FRB/USSS regarding the new situation with the online order form
Director	Reviewing monthly report
Director	Reviewing overall budget to make sure on track
Director	Reviewing weekly reports and compiling activity report
Director	Interaction with PBN
Director	Interaction with UPS/DHL invoices, etc.
Director	Interaction with Webb/Mason - BrightKey
Director	Interaction with Asst. Project Manager
Director	Reviewing and signing DHL invoice
Director	Reviewing and signing PBN invoice
Director	Reviewing and signing UPS invoice
Director	Reviewing and signing Webb/Mason Invoices
Director	Reviewing export file from website
Director	Reviewing inventory report
Director	Reviewing order file
Director	Reviewing PBN documents for sending
Director	Reviewing UPS/DHL documentation for potential issues
Director	Reviewing UPS/DHL notifications for potential issues
Director	Reviewing exceptions
Senior Associate	Proofing of monthly report
Manager	Modifications to address issues with launch program
Client	Modifications to address issues with launch program

Appendix 2  
 Burson-Marsteller Response (see Appendix 3 for OIG Comments)

Executive	
Managing Director	Discussion regarding any issues/concerns/progress on program
Associate	Interactions with client lead
Associate	Maintaining up-to-date information on customs for countries we ship to
Associate	Interaction with UPS on international shipments
Associate	Interaction with DHL on international shipments
Associate	Monthly Tasks: Preparing highlights
Associate	Monthly Tasks: Preparing Word document report
Associate	Monthly Tasks: Running and preparing Excel spreadsheet report
Associate	Weekly Tasks: Confirming that fax numbers are working (toll free and local number)
Associate	Weekly Tasks: Preparing inventory report and email for Burson/BEP
Associate	Weekly Tasks: Running and preparing the Excel spreadsheet report

We hope that this response answers all of your questions concerning this contract.

Sincerely,

/s/

/s/

Jerome Selick  
 Chief Financial Officer, USA

Sharon Balkam  
 Managing Director, Business Manager

Enclosures:

1. Burson-Marsteller Timesheet Policy
2. Travel and Entertainment Policy,
3. Master Client and Project Policy and Procedures.

OIG Comment 8



**WEBB MASON**

Attachment 4

**CORPORATE HEADQUARTERS  
BALTIMORE**

10830 Gilroy Road  
Hunt Valley, MD 21031  
410-785-1111 Phone  
410-584-7777 Fax

---

**OFFICES &  
DISTRIBUTION CENTERS**

Atlanta, GA  
Baltimore, MD  
Bentonville, AR  
Boston, MA  
Buffalo, NY  
Charlotte, NC  
Chicago, IL  
Dallas, TX  
Denver, CO  
Ft. Worth, TX  
Houston, TX  
McKinney, TX  
Nashville, TN  
New York, NY  
Philadelphia, PA  
Pittsburgh, PA  
Richmond, VA  
Shelbyville, TN  
St. Louis, MO  
Tampa, FL  
Washington DC

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[webbmason.com](http://webbmason.com)

Vincent E. Price  
Burton-Marsteller/Direct Impact  
1110 Vermont Ave NW  
Washington, D.C.

April 15, 2014

Re: OIG Audit

Dear Mr. Price,

This is in response to your April 7, 2014 email asking for estimated annual staff hours spent here in fulfilling our contract obligations to Direct Impact during the contract period covered by our Agreement (the "Contract") dated August 15, 2007.

We understand that the OIG believes you should refund the difference between what we paid our subcontractor and billed Direct Impact on the premise that we added no value.

This is a curious position, given the fact that at over \$100 Million in annual revenues we have built one of the largest marketing solution and print distribution companies in the United States, in large measure by value added services such as the engagement in question. The services we provided are typical for our industry.

To our knowledge, the facts are as follows:

1. We participated in an RFP initiated by Direct Impact and directed to several potential vendors for the business, and were awarded the Contract based on price, qualifications, and ability to manage and deliver the product. The award to WebbMason was market tested as to price and qualification.
2. As a part of our obligations, we located and vetted our minority subcontractor (Bright Key) as required by Direct Impact.
3. Because Direct Impact concluded that neither it nor Bright Key had the resources to completely manage the Contract requirements, the Contract required us to oversee, manage or perform the Contract services specified under Section 2 of the Agreement.
4. WebbMason was fully liable for satisfactory performance of the Contract.
5. We understand from you that oversight of Bright Key without WebbMason's services would have required at least one additional Direct Impact full-time employee.
6. In addition to overseeing Bright Key's fulfillment services, we oversaw print collateral inventory receipt from the various government printing office vendors (see 7.d below); our responsibility extended not just to Bright Key but included the logistics for a number of other print providers engaged by the GPO.
7. We do not maintain time records or hourly rates by client for our personnel, because in our industry pricing is not determined by hourly rates. While this all took place between 2007 and 2012, the best recollection of the WebbMason employee primarily responsible for the Contract logistics and oversight is that she spent about 190-200 hours annually on those responsibilities. The responsible executive spent about 40-50 hours initially on Contract matters, and an additional 40 hours annually thereafter. These estimates exclude billing and accounting time. A summary of the day-to-day

[Print Management](#) | [Promotional Strategies](#) | [Email & Direct Mail](#) | [Website Strategies](#) | [PURLs & Microsites](#) | [Social Media](#) | [Marketing Software](#)

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direct logistics and oversight carried out by the responsible WebbMason employee is as follows:

- a. Inventory management – confirming that the inventory report received each week matched up with orders sent/received/etc.
  - b. Project Management – overall project management, liason between client/vendor, pricing, special reports, monthly billing, and inventory reporting
  - c. Handling all special requests, projects, programming requests that came up.
  - d. During ramp-up phases for print collateral for each new currency bill, tracking when inventory would be received from the various Government Printing Office print vendors, receiving the inventory and accurate reporting of the inventory that was received. Often times this involved pricing/scheduling and special equipment rentals due to pallet/delivery specs not being met by outside vendors.
  - e. Bi-annual onsite meeting at the facility with the client for QA purposes.
8. The services specified in paragraphs 6 and 7 and related indirect costs were not separately billed, but in accordance with usual standard practice were covered in our aggregate charges, which included the Bright Key work.

In summary, the fact that value was added here at a market tested price seems quite clear. We compete regularly with direct providers such as Bright Key, and offer our customers oversight expertise, multiple sourcing options and quality management and control services that otherwise would have to be handled internally, which would have required Direct Impact to hire an individual with the requisite industry competence. Our standing and success in a highly competitive market speaks for itself.

Let me know if we can do anything further.

Sincerely,

*Ed*

Ernest J. Vaile  
CFO and Executive V.P.

Following are OIG comments to Burson-Marsteller's response in Appendix 2.

OIG Comment 1 We disagree with Burson-Marsteller's position that the contract allowed for firm-fixed price (FFP) task orders. Section B.1 of the contract states "This is a Time and Material contract with task orders to be issued against the general scope of work in the contract; each task order having its own statement of work and individual pricing." As indicated in Burson-Marsteller's response, section H.1 of the contract also states "This is a Time and Materials contract." In addition, the Bureau of Engraving and Printing's (BEP) intent to issue the contract as a time and materials (T&M) contract is captured in its response to a potential bidder's question to the government's request for proposal. Specifically, captured on the Federal Business Opportunities website and available for all potential bidders to view, a potential bidder asked the following question:

"We recommend that the government list the type of contract as an Indefinite-Delivery Indefinite-Quantity (IDIQ) contract using Firm-Fixed-Price and Time and Materials task/delivery orders. As this contract structure will enable the government to receive task order proposals that are based on both fixed price and time and materials pricing elements, will the government consider amending the RFP to provide for this type of contract structure? Please clarify."

In response, BEP wrote:

"The Bureau of Engraving and Printing is not contemplating to amend the RFP nor inclined to convert the solicitation structure to an IDIQ contract. This is a Time and Material contract only. The Contractor will be reimbursed for time and material costs based upon the actual cost incurred."

OIG Comment 2 We disagree with Burson-Marsteller's position that section H.7 permits issuance of FFP task orders. Specifically, section H.7 notifies the contractor that work performed is to be accomplished using task orders and are issued under the terms

established in section B which clearly states that the contract is T&M. Section H.7.1. further describes the elements to be included in Burson-Marsteller's task order proposal including loaded labor rates with "The Contractor shall provide its Time and Material estimate for services as defined in the Government's request." Furthermore, section H.7.4.(a) states that the Government will issue a task order to include the ceiling *or* firm fixed price to complete the requirement. Section H.7.4.(a) also included instructions for T&M task orders with "the Contractor shall notify the Contracting Officer in writing when expenses accrued are believed to exceed 85% of the *ceiling price* for each time and materials task order." Though there was indication that the ceiling price, indicative of a T&M contract, was to be used, Burson-Marsteller disregarded it and proposed task orders that included both FFP and T&M components.

OIG Comment 3 Burson-Marsteller provides examples where clauses are included in the contract referring to fixed price contracts (Federal Acquisition Regulation (FAR) 52.243-1, *Changes – Fixed Price*; FAR 52.246-4, *Inspection of Supplies – Fixed Price*; and FAR 52.246-2, *Inspection of Services – Fixed Price*). However, according to FAR 52.215-8, *Order of Precedence – Uniform Contract Format*, any inconsistency in the solicitation or contract shall be resolved by giving precedence in the following order:

- a. The schedule (excluding the specifications)
- b. Representation and other instructions
- c. Contract clauses
- d. Other documents, exhibits and attachments
- e. The specifications

According to FAR 15.204-1, *Uniform contract format*, the contracting officers prepare contracts using a uniform contract format that includes a schedule, contract clauses, and representation and instructions. The schedule covers sections A through H of the contract is defined as:

- A. Solicitation/contract form
- B. Supplies or services and prices/costs

- C. Description/specifications/statement of work
- D. Packaging and marking
- E. Inspection and acceptance
- F. Deliveries or performance
- G. Contract administration data
- H. Special contract requirements

Pursuant to FAR 52.215-8, the schedule is given precedence over contract clauses in resolving any inconsistencies in the solicitation or the contract. Therefore, sections B.1 and H.1 of the contract, classifying it as T&M, supersede the clauses included in the contract. Furthermore, FAR 52.216-8 states that when contract type differs between the actual contract and the task order, the contract shall control. In this particular case, the numerous T&M citations within the contract supersede the hybrid task orders.

OIG Comment 4 We partially agree with Burson-Marsteller's comments about acceptance of deliverables. The contract was clearly intended to be T&M. That said, we do acknowledge that BEP's approval of Burson-Marsteller's task order proposals for Fulfillment and subsequent issuance of notices to proceed could constitute a bilateral modification by BEP, but only for that portion of the task order that was proposed by Burson-Marsteller as FFP (i.e., the labor component for management and oversight). As such, we did not question the FFP labor component of the task order that was billed to BEP as a monthly fixed price. We are questioning the Direct Impact labor related to box processing. Regardless of whether BEP accepted deliverables and made payment, the costs were not supported with adequate documentation.

OIG Comment 5 We agree with Burson-Marsteller that the FAR provides guidance for selecting a contract type appropriate to the circumstances of the acquisition. However, the contract type selected by the contracting officer at the time of acquisition was T&M as stated in the solicitation and response to bidder questions and throughout the contract.

OIG Comment 6 The solicitation and BEP's response to vendor questions put bidders on equal ground to submit a proposal for a T&M contract. As such, Burson-Marsteller submitted a Business Management proposal which was T&M and contained no FFP components. However, subsequent to BEP awarding a T&M contract to Burson-Marsteller, Burson-Marsteller submitted task order proposals containing FFP components. We acknowledge that since BEP issued the task orders and paid the invoices, the contract was essentially bi-laterally modified to include hybrid task orders. Therefore, we are not questioning the FFP labor component of fulfillment task orders.

OIG Comment 7 According to the contract documents submitted by Burson-Marsteller to BEP, the "box processing activities" portion of the fulfillment task order was charged as a cost under T&M. In Burson-Marsteller's Business Management proposal submitted to BEP, the box processing charges were listed as an "Other Direct Cost." After contract award, Burson-Marsteller continued to portray the box processing charges as a cost by labeling them as "Fixed Costs per box" on each of the annual Fulfillment task order budgets. In Burson-Marsteller's description of the services on the task order budget, Burson-Marsteller describes the "Detail for Fixed Costs per box" as:

"Processing for each box shipped will be billed at a cost of [REDACTED] for domestic and a cost of [REDACTED] for international. The processing fee includes packaging materials, postage, and labor necessary to process a box. Also includes cost associated with returns, exceptions, rush orders, copies, phone expenses, pallet receiving, and overall warehouse management." {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

Not only did Burson-Marsteller categorize the box processing charge as a cost on budget proposal documents, Burson-Marsteller also categorized the box processing charge as a direct cost on invoice documents. On Burson-Marsteller's Task Order Budget Summary, a document included in each invoice package to BEP, the box processing charge is listed under Other Direct Costs.

We believe that a cognizant contracting officer would reasonably assume that if the box processing charges were labeled as a cost on contract and invoice documents, then the charges would be billed at cost. Burson-Marsteller's response that the terms "fixed price," "firm fixed price," "fixed fee," and "fixed cost" were used interchangeably in contract documentation demonstrates at best, sloppiness, and at worse, inappropriate conduct by attempting to conceal that nature of the costs proposed and billed.

We are not questioning whether box processing activities were completed and labor was performed, however, we are questioning the costs because Burson-Marsteller was not able to provide documentation to support the amount that was charged to BEP.

OIG Comment 8 Even though Burson-Marsteller may not be privy to the specific arrangement between its first-tier subcontractor, WebbMason, Inc. (WebbMason), and the second-tier subcontractor, BrightKey, Inc. (BrightKey), Burson-Marsteller is responsible for making sure costs charged are reasonable regardless of how the WebbMason/BrightKey structure was established in the previous contract. Each contract is a stand-alone event and the contractor is responsible for paying costs that a prudent business person would pay. We concluded that Burson-Marsteller did not pay the costs that a prudent business person would pay. For example, WebbMason added a 78 percent markup to BrightKey's storage rate. Storage of materials was done by BrightKey in its warehouses; WebbMason played no part in the storage of the materials. In this regard, WebbMason's price for storage far exceeded the price proposed by other fulfillment vendors. Prior to the 2006 contract, Burson-Marsteller received proposals from five vendors to provide fulfillment services for the BEP contract. Of the five bids received, WebbMason's proposed price of ■■■ per pallet per month was the highest. The other proposed prices ranged from ■■■ per pallet per month to ■■■ per pallet per month. Given the range of prices from other vendors, we believe the price Burson-Marsteller paid WebbMason was unreasonable. {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

In the context of the contract, BEP's contracting officers were aware of BrightKey but not WebbMason until the last year of the contract. Burson-Marsteller reported BrightKey, not WebbMason, as the fulfillment subcontractor in all contracting documents. BrightKey was named as the fulfillment subcontractor in Burson-Marsteller's master contract proposal documents and fulfillment task order proposal documents. Burson-Marsteller and Direct Impact did not include WebbMason invoice documents in their invoices packages to BEP. Burson-Marsteller also referred to BrightKey, not WebbMason, as the fulfillment vendor in its internal documents. For example, the author of one internal Burson-Marsteller document entitled "Vendor Recommendation for Fulfillment" recommended using Professional Mailing and Distribution Services<sup>18</sup> (BrightKey) as the fulfillment vendor. WebbMason is not mentioned in this document.

In its response, Burson-Marsteller provided as an attachment (see pages 45 and 46), a letter written by WebbMason's Chief Financial Officer (CFO) describing the work WebbMason performed under the fulfillment task order. However, the information provided in this letter is inconsistent with the information provided to us during interviews with the Burson-Marsteller fulfillment task order manager, WebbMason's account representative, and WebbMason's CFO. Based on the level of work described in the interviews with these individuals, which was characterized by the interviewees as minimal, we concluded that the costs charged by WebbMason were unreasonable. In our interview with WebbMason's CFO, he stated that WebbMason's role was to identify and qualify BrightKey as a subcontractor.

We disagree with Burson-Marsteller's comment that it was not required to identify its subcontractors to BEP. FAR 52.244-2, *Subcontracts*, is incorporated in the contract by reference. This clause requires the Government's consent for T&M, cost reimbursement, labor hour subcontracts, and certain fixed price

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<sup>18</sup> Between 1988 and 2007, BrightKey was doing business as Professional Mailing and Distribution Services.

subcontracts if the contractor does not have an approved purchasing system. Burson-Marsteller did not have an approved purchasing system at the time of the contract. Therefore, Burson-Marsteller was required to get approval from the BEP contracting officer prior to subcontracting with WebbMason.

Regardless of the arrangements made between WebbMason and BrightKey, Burson-Marsteller was responsible for ensuring that subcontract costs are reasonable and allowable in accordance with the contract and the FAR. In the case of box processing and storage provided by WebbMason, the costs we questioned are costs billed to BEP that were unreasonable.

OIG Comment 9 BEP operations are financed by means of a revolving fund established in 1950 in accordance with Public Law 81-656, and according to the U.S. Government Accountability Office (GAO), *Principles of Federal Appropriations Law*, a revolving fund is an appropriation.<sup>19</sup> Accordingly, funds in a revolving fund are subject to the various purpose, time, and amount limitations and restrictions applicable to appropriated funds. Therefore, the meals provided to the BEP employees are unallowable under Federal appropriations law.

We addressed the issue of reimbursement by the BEP employees for the meal costs in a separate communication to BEP management.

OIG Comment 10 Costs claimed under the contract should be supported by proper documentation. Section G.4.d of the contract states that each invoice submitted shall be supported by appropriate documentation to show and attest to the amount being billed.

OIG Comment 11 This is Burson-Marsteller's task order proposal for fiscal year 2007 for task order 1, the materials fulfillment task order. It should be noted that Burson-Marsteller presented most

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<sup>19</sup> GAO, *Principles of Federal Appropriations Law*, Chapter 12, Section C.4, "Revolving Funds, Expenditures/Availability" (Sep. 2008)

amounts in the task order proposal in a similar fashion as the master contract proposal with one difference--Burson-Marsteller separated the processing fee and removed it from the Other Direct Costs category into its own category called "Fixed Costs per box." It is important to note that Burson-Marsteller proposed the processing as "Other Direct Costs" (ODCs) in the master contract. But the most significant change that Burson-Marsteller made was to the billing instructions. These instructions are not consistent with the original contract terms, a T&M contract. The task order proposal includes a statement separate from the amounts proposed that "Burson-Marsteller will invoice BEP a monthly fixed fee of \$56,335 for labor," and "Processing for each box shipped will be billed at a cost of [REDACTED] for domestic and a cost of [REDACTED] for international." {REDACTED – FOIA EXEMPTION 4, 5 U.S.C. 552(b)(4)}

OIG Comment 12 We do not dispute Burson-Marsteller's assertion that these tasks were completed as part of the box processing charge; however, Burson-Marsteller was unable to provide documentation to support the actual number of hours/costs incurred as is required of a T&M contract.

OIG Comment 13 Due to the inconsistency in Direct Impact employees' timekeeping, Burson-Marsteller was unable to provide documentation to support the actual number of hours/costs incurred by Direct Impact employees when they worked on the materials fulfillment tasks (FFP). Direct Impact employees completed time records only when they worked on T&M task orders for Burson-Marsteller. Also see OIG Comment 1, 2, and 3 for additional information.

OIG Comment 14 In Burson-Marsteller's response, the box processing charge is referred to as a "firm-fixed-price per box," "per box fee," "fixed price per box," "firm-fixed-fee per box," and "fixed fee per box price." However, none of these terms were used in master contract proposal documents presented to BEP by Burson-Marsteller during solicitation and task order negotiations. Burson-Marsteller consistently presented the box processing charges to BEP as "Other Direct Costs (ODCs)." Also see OIG Comment 7 for additional information.

Burson-Marsteller states that the “per box fee” was negotiated under the previous contract it held with BEP from 2002-2006. This is irrelevant, as each contract is a separate, stand-alone event. Negotiations with BEP during the award of the 2002 contract (TEP-02-15) are not relevant to the 2006 contract.

OIG Comment 15 The previous contract awarded in 2002 allowed for both T&M and fixed price task orders. The 2006 contract was awarded as a T&M contract, and there was no documentation to support a negotiated modification. The 2002 contract pricing is irrelevant to the 2006 contract.

OIG Comment 16 Burson-Marsteller’s statement that its technical proposal stated under the Fulfillment section that “fulfillment would be carried out consistent with the previous contract” is irrelevant to the box processing charges. Information in the technical proposal relates to the approach and methodology the contractor will use to complete the statement of work; it does not relate to contract pricing.

OIG Comment 17 The competitive award was made for a T&M contract. BEP solicited the contract as a T&M contract, in which a bidder would submit a price proposal with an estimated ceiling that a contractor cannot exceed without contracting officer revisions. Like all other bidders, Burson-Marsteller submitted a T&M pricing proposal. However, after award, when no other bidders had the chance to compete, Burson-Marsteller’s task order proposals for materials fulfillment services were submitted with FFP elements, using T&M ceiling as the fixed priced. With a FFP estimate, the Government was required to pay the proposed amount in full, whereas with a budget ceiling estimate, the Government is required to pay the amount the contractor has actually expended under the task order up to the ceiling amount. These are two very different proposal pricing structures. The Government’s independent government cost estimates for the contract and the task orders were developed using a cost ceiling, and not a FFP. Additionally, it would be reasonable for the Government to assume that Burson-Marsteller would have support for costs outlined in its invoices.

Appendix 4  
Major Contributors to This Report

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Deborah L. Harker, Audit Director  
Eileen J. Kao, Auditor-in-Charge  
David W. Hash, Auditor  
Brigit A. Hoover, Auditor  
Daniel F. Gerges, Referencer

**The Department of the Treasury**

Deputy Secretary  
Treasurer of the United States  
Office of Deputy Chief Financial Officer, Risk and Control Group

**Bureau of Engraving and Printing**

Director  
Contracting Officer  
Audit Liaison

**Burson-Marsteller**

Chief Executive Officer  
Chief Financial Officer