

June 1989

# FEDERAL ADVERTISING

## Federal Use of Small Disadvantaged Subcontractors Is Minimal



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**Resources, Community, and  
Economic Development Division**

B-233281.2

June 30, 1989

The Honorable Cardiss Collins  
House of Representatives

Dear Ms. Collins:

You requested that we investigate the extent to which the federal government uses minority-owned media and advertising companies in developing its advertisements and conducting campaigns. As agreed to with your office, we focused our efforts on (1) determining to what extent the federal government has utilized minority-owned advertising firms, (2) determining whether fiscal year 1986 Department of Defense (DOD) prime contractors have complied with the national policy to use small disadvantaged firms for subcontracts, and (3) recommending ways the federal government might increase business opportunities for minority media and advertising companies. Some of the DOD organizations have new contractors since fiscal year 1986, and we have updated this information where appropriate.

Our review was primarily focused on DOD contracts because 97 percent of the total federal budget for advertising in fiscal year 1986 was expended by DOD. Further, it was the only federal agency that had contracts large enough to be subject to the Small Business Act of 1958, as amended by Public Law 95-507. Because the Small Business Act sets forth the policy and requirements for using small disadvantaged businesses as contractors and/or subcontractors, we agreed with your office to limit our compliance review to contracts and subcontracts with small disadvantaged businesses and not just minority-owned firms.

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**Results in Brief**

The federal advertising budget for fiscal year 1986 was about \$166 million. DOD contracts totaled about \$160 million and included six contracts that were subject to the subcontracting provisions of the Small Business Act and the Federal Acquisition Regulation (FAR). However, DOD did not use small disadvantaged advertising firms as prime contractors and made only minimal use of small disadvantaged advertising firms as subcontractors.

DOD and its contractors often did not comply with the mandatory provisions of the act and the FAR. Examples of noncompliance included not developing a subcontracting plan or not developing a subcontracting plan which included all mandated elements, and not keeping records of

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the amount subcontracted to small disadvantaged advertising firms. These violations indicate that DOD and its contractors may not have complied in good faith with the policy of the act or the required subcontracting plans. The act and the FAR provide that not complying in good faith constitutes a material breach of the contract.

Additional examples of noncompliance include (1) setting small disadvantaged subcontracting spending goals on substantially less than the total subcontracting dollar amount, as required, and (2) counting some purchases of advertising geared toward minority audiences as meeting subcontracting goals with small disadvantaged firms, even when it was not purchased from a small disadvantaged firm.

A first step toward increasing business opportunities for small disadvantaged businesses is for DOD to comply with the act and the FAR and to enforce these provisions with its contractors.

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## Background

Federal agencies' obligation to utilize small disadvantaged advertising firms is governed by the Small Business Act of 1958, as amended by Public Law 95-507, and the FAR. The act states that small businesses and small businesses owned and controlled by socially and economically disadvantaged individuals must be provided the maximum practicable opportunity to participate in the performance of contracts awarded by a federal agency.<sup>1</sup> Section 211 of the act requires virtually all government contracts in excess of \$500,000 (\$1 million for construction) that offer subcontracting opportunities to contain a contractor's plan for subcontracting with small and small disadvantaged businesses. Subcontractors that receive awards in excess of the dollar thresholds also are required to adopt a plan similar to the one required from prime contractors. Small businesses are exempt from this requirement.

No contract shall be awarded unless and until an acceptable plan is negotiated with or submitted to the contracting officer and incorporated into the contract, as a material part of the contract. The act specifies that failure to produce an approved plan within the time frame specified by the procuring agency renders the potential contractor ineligible for award. The act states that each subcontracting plan must contain six particular elements. These elements address, among other things, goals

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<sup>1</sup>See appendix I—Objectives, Scope and Methodology—for what constitutes a small disadvantaged business concern.

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for using small businesses and small disadvantaged businesses as subcontractors, assurances that small businesses and small disadvantaged businesses will have an equitable opportunity to compete for subcontracting opportunities, assurances that the contractor will submit reports in order to allow the government to determine the extent of the contractor's compliance with its subcontracting plan, and a description of the types of subcontracting records the contractor will keep. Finally, the act provides that failure to comply in good faith with the national policy or the requirements of the subcontracting plan shall be considered a material breach of contract. Appendix II details the six elements and the FAR requirements.

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## Limited Utilization of Small Disadvantaged Advertising Firms by the Federal Government

The federal government's use of small disadvantaged advertising firms, both as prime contractors and as subcontractors, was limited in fiscal year 1986. Twelve federal agencies procured advertising services in fiscal year 1986; their total advertising budget in 1986 was approximately \$166 million. Of this amount, approximately 1 percent was spent with small disadvantaged firms as prime contractors. Appendixes III, IV, V, and VI contain information on the federal agencies' expenditures for advertising contracts for fiscal year 1986. Because of incomplete and inaccurate agency records, we could not determine the exact amount that was subcontracted to small disadvantaged firms by the prime contractors.

In fiscal year 1986, DOD, the largest buyer of advertising services, did not use small disadvantaged advertising and media firms as prime contractors. Within DOD, six separate organizations<sup>2</sup> had prime contracts with six different advertising firms to provide recruitment advertising services which were subject to section 211. However, none of the agencies had prime contracts with small disadvantaged advertising firms. The Navy made the only direct award in fiscal year 1986 to a small disadvantaged recruitment advertising firm under a basic ordering agreement in the amount of \$546,000. (See app. V.)

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<sup>2</sup>The Army, Navy, Marine Corps, Air Force, National Guard and the Joint Recruiting Advertising Program (JRAP).

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## Some DOD Organizations Did Not Comply With Subcontracting Requirements

Of the six DOD advertising contractors required to submit subcontracting plans, one may not have submitted a plan and another submitted a plan that did not include all six elements required by the act.

We were unable, after repeated attempts, to obtain a copy of the subcontracting plan from the National Guard contractor for fiscal year 1986. According to officials at the National Guard, it is possible that a subcontracting plan had not been prepared for fiscal year 1986. The contract administrator at the National Guard told us that little priority was given to complying with section 211 and, as a result, little attention was paid to subcontracting with small disadvantaged businesses.

If a plan was not prepared, the contractor and the National Guard both have not complied with the act and the FAR. By doing so, the contractor also may not have complied in good faith with the provisions of the act and national policy that mandate that contractors subcontract to the fullest extent consistent with the efficient performance of the contract. If the contractor has not complied in good faith with the policy and the mandate, the act specifically provides that the contractor is in material breach of the contract.

The subcontracting plan submitted by the Air Force's prime contractor did not contain two of the elements mandated by the act and the FAR. Specifically, the two elements missing from the subcontract plan were: (1) assurances that the contractor would submit periodic reports and cooperate in any studies or surveys as required in order to determine compliance with the subcontracting plan and (2) a description of the type of records that would be maintained to demonstrate compliance. With these provisions missing from the agreed-upon subcontract plan, both the contractor and the Air Force have not complied with the act and the FAR. The violations of this contractor, like those of the National Guard's contractor, indicate that the contractor may have been in material breach of the contract.

We have subsequently learned that both the Air Force and the National Guard have changed contractors and the subcontracting plans now contain the mandatory elements.

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**Prime Contractors Did Not Keep Required Records to Determine Amount Subcontracted to Small Disadvantaged Advertisers**

Three of the six prime contractors could not provide us with records categorizing the amounts spent with small disadvantaged businesses.

Neither the Army, the Air Force, nor the National Guard's prime contractors had the required records, although the Army gave us the data from contract closeout reports. However, prime contractors for the Air Force and the National Guard had only delivery orders, which did not distinguish between large, small, or small disadvantaged subcontractors.

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**Contractors' Records and Reports Showing Compliance Are Questionable**

The prime contractors' reports showed that they were complying with section 211 and subcontracting with small disadvantaged advertising firms. However, their records were incomplete or inaccurate. Available records showed that they met or came close to meeting the goals in their subcontracting plan. In some cases, the prime contractors' records showed that they did not restrict purchases of advertising services to small disadvantaged firms when counting achievements toward their goals. One prime contractor showed that it met the requirements by setting its spending goals on substantially less than the total subcontracting dollars, although the guidance from the Office of Federal Procurement Policy implementing the act requires that the goal be set on the total subcontracting dollars. In other cases, records were completely unavailable.

Because of the limited records available, we could not verify the exact amount spent by prime contractors for advertising with small disadvantaged subcontractors. Nevertheless, the contractors' reports to DOD showed that the prime contractors came close to achieving the percentage goals established in their plans. Appendix VII shows the established goals and reported achievements.

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**Two DOD Contractors Counted Other Than Subcontracts With Small Disadvantaged Firms**

Records showed that prime contractors were complying with the requirements of the act, yet we found in the Army's advertising program that the purchase of media space and time geared to a minority audience was counted as subcontracting with small disadvantaged media and advertising firms even though it may not have been purchased from a small disadvantaged firm.

According to an official for the Army's advertising program, the prime contractor was given guidance that it could credit buys made using a small disadvantaged agent, even if the ultimate supplier was not a small

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disadvantaged firm. However, our review revealed that a small disadvantaged agent did not purchase the media geared to the minority audience. The purchase was made by the prime contractor.

Records of the prime contractor for the Marine Corps credited subcontracting with women-owned firms toward meeting its small disadvantaged goals. Public Law 95-507, as amended, specifically defines groups such as Black Americans, Hispanic Americans, Native Americans, and other minorities as disadvantaged but does not specifically define women-owned businesses as disadvantaged. According to the women-owned suppliers, they were given guidance by the prime contractor to categorize themselves as small disadvantaged businesses because they were small and women-owned. Officials in the New York Defense Contract Administration Services office said that they had given the prime contractors verbal guidance to count “everything that they could” toward achieving their small disadvantaged subcontracting goals.

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### One Contractor Set Goal on Much Smaller Percentage Than Policy Guidance Requires

The subcontracting plan for the JRAP showed that the contractor did not base the goal for subcontracting with small disadvantaged businesses on the total dollars planned to be subcontracted. This resulted in setting a percentage goal on a substantially smaller dollar amount than required by the policy guidance implementing the act. For example, the total amount of dollars to be subcontracted under the contract was \$15.703 million. Instead of using this figure as the base for establishing the goal to be subcontracted to small disadvantaged businesses, the contractor, after consultation with DOD advertising officials in JRAP, used \$548,477 as the available amount for subcontracting and projected that 8 percent of this, or \$43,877, would be subcontracted to small disadvantaged firms. This amount is significantly smaller than 8 percent of \$15.703 million, or \$1.256 million.

A DOD official acknowledged that DOD had given the contractor approval to use the smaller goal. According to the official, DOD approved the smaller amount because the contractor projected that the bulk of the total dollars planned to be subcontracted would be spent to purchase national media, which had no subcontracting opportunities for small disadvantaged businesses. The percentage goal for small disadvantaged businesses should be based on the total amount of subcontract dollars in accordance with the implementing guidance from the Office of Federal Procurement Policy, which prescribes how agencies are to comply with section 211 of the act.



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## DOD's Implementation of Monitoring Requirements Could Be Improved

The act and FAR set forth reporting requirements so that the federal agency can monitor contractor performance under the contractor's subcontracting plan, as agreed to by the contractor and contracting agency. Specifically, the FAR requires the contractor to submit forms which summarize the total dollar amount, show the percentage of contract value of all subcontracts let and those subcontracts let to small and small disadvantaged businesses, and summarize the extent (by percentage) to which the contractor has achieved the subcontracting goals. Within the contracting agency, the "cognizant" administrative contracting officer is responsible "for monitoring, evaluating, and documenting contractor performance." (See app. II for details on FAR requirements for monitoring.)

DOD, at times, did not effectively implement monitoring requirements as required by the FAR. Although the required report forms were generally completed and submitted to DOD, they contained inadequate and inaccurate information. As a result, DOD had no way of knowing whether prime contractors were actually using small disadvantaged businesses as subcontractors. For example, the Army contractor's<sup>3</sup> subcontract report for fiscal year 1986 stated that the subcontracts let to large or small business concerns represented "total [advertising] agency subcontractings; not just subcontracts for the Army Account."

Further, in the section of the report which requires dollar and percentage figures for subcontract commitments to small disadvantaged business concerns, the advertising agency responded that it "keeps no subcontract records for its overall allocation of small disadvantaged business . . . concerns." Contract files in the DOD purchasing office that took responsibility for monitoring the Army contract were sketchy and did not indicate that active monitoring had occurred. As a result, neither the Army nor DOD had adequate accountability of the contractor's compliance with the act.

Subsequently, we were informed that the new Army contract is being monitored by the Defense Contract Administration Services Office in New York. Since the contractor is also in New York, Army officials advised us that this would allow for more detailed oversight and coordination and improved recordkeeping.

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<sup>3</sup>This contractor had the Army advertising contract for 19 years but was not selected when the contract was recompeted for fiscal year 1987.

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## Conclusions

We believe that the six DOD organizations we reviewed did not enforce compliance with the requirements of section 211 and, for this reason, DOD's prime advertising contractors did not make compliance a priority. Further, we believe that DOD did not effectively monitor the performance of prime contractors' compliance with their subcontracting plans. While some subcontracting plans were prepared, they were not implemented. DOD's prime advertising contractors do not appear to have actively sought to give small disadvantaged advertising and media firms a share of the federal money as was intended by the act. These violations indicate that DOD and its contractors may not have complied in good faith with the policy of the act and as such could constitute a material breach of those contracts.

DOD prime contractors circumvented their requirement to utilize small disadvantaged firms. Specifically, the prime contractors counted advertisements directed at minority audiences as contracts with small disadvantaged businesses, even when the firms they hired to do the advertising were not small disadvantaged firms. As such, some prime contractors were not in compliance with their subcontracting plans.

Although the Army, National Guard, and Air Force have changed contractors and corrected some of the problems we identified with their fiscal year 1986 contracts, we believe that opportunities for small disadvantaged firms could be increased. This could be done if DOD (1) strengthened its efforts to ensure strict adherence to the legal requirements for subcontracting with such firms and (2) did not allow prime contractors to use the purchase of media space and time geared to minority audiences toward the achievement of their goals unless purchased from a small disadvantaged firm.

We also believe that basing the small disadvantaged percentage subcontracting goal on any amount other than the total subcontract dollars is contrary to the guidance provided by the Office of Federal Procurement Policy to implement section 211 of the act.

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## Recommendations

In order to comply with the Small Business Act of 1958, as amended, and the FAR, we recommend that the Secretary of Defense:

- Require prime contractors to develop and implement subcontracting plans to make maximum use of small disadvantaged advertising firms.
- Enforce the requirement that prime contractors keep the appropriate records and meet reporting requirements to comply with section 211.

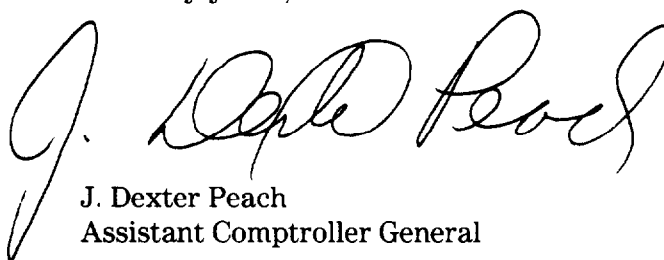
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- Disallow the purchase of media space and time geared to minority audiences as subcontracting with small disadvantaged advertising firms unless it is actually purchased from a small disadvantaged firm.
  - Ensure that prime contractors set small disadvantaged spending goals on the total dollars planned to be subcontracted.
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Appendix I contains additional information on our objectives, scope, and methodology. Appendix II contains subcontract plan requirements. You also asked us to determine the total federal advertising budget by agency (see app. III), provide expenditures with different media (see app. VIII), discuss any agency programs to spur contracts to minority advertising firms (see app. IX), and discuss the activities of the Advertising Council in administering federal campaigns (see app. X).

As agreed to with your office, we did not obtain formal agency comments on our draft report. However, we discussed the report's contents with DOD officials in each organization we reviewed, and have incorporated their comments where appropriate. Unless you publicly release its contents earlier, we will not distribute this report further until 30 days after its issue date. At that time, copies of the report will be sent to appropriate congressional committees and other interested parties.

This review was performed under the direction of John M. Ols, Jr., Director, Housing and Community Development Issues. Major contributors to this report are listed in appendix XI.

Sincerely yours,



J. Dexter Peach  
Assistant Comptroller General

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**Abbreviations**

DOD	Department of Defense
FAR	Federal Acquisition Regulation
FPDS	Federal Procurement Data System
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
JRAP	Joint Recruiting Advertising Program
RCED	Resources, Community, and Economic Development



# Objectives, Scope, and Methodology

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The overall objective of our work was to provide information on the federal government's utilization of minority advertising and media firms. Specifically, Representative Cardiss Collins asked us to (1) determine to what extent the federal government utilized minority-owned advertising firms, (2) determine whether fiscal year 1986 Department of Defense (DOD) prime contractors were in compliance with the national policy to use small disadvantaged firms for subcontracts,<sup>1</sup> and (3) recommend ways the federal government might increase business opportunities for minority media and advertising companies. In addition, Representative Collins asked us to

- determine the total federal advertising budget, broken down by agencies, and the amount of money spent in radio, television, newspaper, and magazine advertising (see apps. III and VIII),
- develop a detailed description of existing programs which direct federal agencies to conduct business with minority media and advertising firms (see app. IX), and
- provide a description of contracts let by federal agencies with the Advertising Council (see app. X).

We conducted our review primarily at DOD's headquarters offices that had advertisement services contracts in 1986. In addition, we did audit work at DOD procuring offices, the New York Defense Contract Administration Field Office, the Small Business Administration's New York Regional Office, government prime advertising contractors, minority advertising firms, the Advertising Council, and the American Association of Advertising Agencies.

To determine the federal advertising budget and the contracts awarded to minority firms, we analyzed reports from the Federal Procurement Data Center and the Department of Defense's DOD 350 system. The center, administered by the General Services Administration, operates the Federal Procurement Data System (FPDS), an automated data system which captures federal government procurement information. The DOD 350 system captures all procurement activity in excess of \$25,000. Using data from these two systems, we developed the total advertising budget for contracts of over \$25,000, broken down by agencies.

After determining that DOD's budget made up 97 percent of the federal advertising budget, we agreed to primarily focus our effort on DOD's budget. Because the actual budget data were not available for fiscal

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<sup>1</sup>The latest period for which data were available when we began our audit work.



year 1987 at the time we began our review, we agreed to focus on fiscal year 1986 expenditures. In addition, we agreed to limit the scope of our review of contracts to those in excess of \$25,000.

To determine the amount spent on radio, television, newspaper, and magazine advertising, and the length and services performed, we met with DOD officials responsible for advertising in the Army, Navy, Marine Corps, Air Force, JRAP, and the National Guard. We augmented the data we received from DOD officials with information we obtained from the government contractors handling the advertising campaigns.

To assess contractors' compliance with Section 211 of Public Law 95-507 and the FAR, which requires prime contractors to develop subcontracting plans and goals, we visited government contractors' offices and requested copies of their subcontract plans. We reviewed each plan to determine if goals had been established and, if so, if they had been achieved. As agreed with your office, we limited our compliance review to contracts and subcontracts with small disadvantaged businesses and not just minority-owned firms.

When meeting with government contractors, we reviewed records and interviewed officials to determine if they had implemented their subcontracting plan. We then met with Small Business Administration and Defense Contract Administration officials who were responsible for monitoring contractor compliance with Section 211 of Public Law 95-507.

We conducted a telephone survey of 20 directors of federal procuring agencies' Offices of Small and Disadvantaged Business Utilization to determine if they had a program directing them to conduct business with minority advertising firms.

To develop a list of services that had been performed under contract by the Advertising Council, we met with officials of the Advertising Council and the American Association of Advertising Agencies, both of which are responsible for selecting the advertising agency to perform the work for the Council.

As defined in the Small Business Act, a small disadvantaged business is one that is at least 51 percent owned by (1) one or more individuals who are both socially and economically disadvantaged, (2) an economically disadvantaged Indian tribe, or (3) a publicly owned business with at

least 51 percent of its stock owned by one or more socially and economically disadvantaged individuals or an economically disadvantaged Indian tribe. Additionally, the business must have its management and daily business controlled by one or more socially and economically disadvantaged individuals or members of an economically disadvantaged Indian tribe. Individuals who certify that they are members of name groups (Black Americans, Hispanic Americans, Native Americans, Indian tribes, Asian Pacific Americans) are among those to be considered as socially and economically disadvantaged, along with other minorities.

Our review was performed between June 1987 and October 1988, and we updated some activities in April 1989 for the organizations that changed contractors after fiscal year 1986. We conducted our review in accordance with generally accepted government auditing standards.

# Subcontract Plan Requirements

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Section 211 of the Small Business Act, as amended, requires that the subcontracting plan include the following elements:

- Goals for the utilization of small businesses and small disadvantaged business subcontractors.
- The name of the individual employed by the contractor responsible for administering the subcontracting program and a description of the duties of such individual.
- The description of the efforts to assure that small businesses and small disadvantaged businesses will have an equal opportunity to compete for subcontracts.
- Assurances that the subcontracting plan clause be included in all subcontracts in excess of \$500,000 (\$1 million for construction) which offer further subcontracting opportunities and the adoption of such a subcontracting plan.
- Assurances that the contractor will submit periodic reports and cooperate in any studies or surveys required by the contracting agency or the Small Business Administration in order to determine the extent of compliance with the subcontracting plan.
- A description of the type of records the contractor will maintain to demonstrate compliance with requirements and goals in the subcontracting plan.

The FAR, which implements the acquisition-related sections of the Small Business Act, reiterates many of the record-keeping requirements of the act. It also mandates that the contractor agree to submit two types of standard forms (Standard Forms 294 and 295)<sup>1</sup> for reporting the extent to which they have in fact subcontracted with small and small disadvantaged businesses. Additionally, the FAR requires the contracting officer making the procurement to be ultimately responsible for ensuring that subcontracting plans are prepared and submitted when required and made a material part of the contract or modification.

Monitoring the contractor's performance of the subcontracting plan after the contract has been awarded is the responsibility of the contracting officer who is administering the contract. This individual may or may not be the same person responsible for the procurement. The contracting agency's contract administration office is responsible for

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<sup>1</sup>Standard Form 294 is a semiannual subcontracting report for individual contracts. Standard Form 295 is a quarterly summary subcontract report which lists cumulative commitment.

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**Appendix II**  
**Subcontract Plan Requirements**

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providing the contracting officer with information on the extent to which the contractor is meeting the plan's goals for subcontracting with small disadvantaged business concerns.

# Prime Federal Advertising Expenditures for Fiscal Year 1986

<b>Agencies</b>	<b>Total Amounts</b>
Department of Defense	\$159,915,000
Department of the Treasury	\$2,454,000
Department of Health and Human Services	1,748,000
Selective Service System	266,000
Tennessee Valley Authority	250,000
Peace Corps	226,000
Department of Agriculture	203,000
Department of Transportation	174,000
Environmental Protection Agency	120,000
General Services Administration	103,000
Department of the Interior	15,000 <sup>a</sup>
Department of Commerce	11,000 <sup>a</sup>
<b>Subtotal, civilian agencies</b>	<b>5,570,000</b>
<b>Total</b>	<b>\$165,485,000</b>

<sup>a</sup>Data on individual contract actions of over \$25,000 must be included in the system. Agencies have the option of reporting detailed information on contract actions of less than \$25,000.

Source: Federal Procurement Data System.

# Prime DOD Contracts Reviewed Which Were Subject to Section 211<sup>a</sup>

<b>Agency</b>	<b>Contract Number</b>	<b>Amount</b>
Army	MDA90385D0101	\$92,765,000
Navy	N0060085C0012	28,724,000
JRAP	MDA90383D0307	11,772,000
Marine Corps	M0002786C0001	9,177,000
National Guard	DAHA9084D0001	7,329,000
Air Force	F41689986D001	5,209,000
<b>Total</b>		<b>\$154,976,000</b>

<sup>a</sup>We reviewed these DOD contracts which were subject to Section 211, Public Law 95-507.

# DOD's Prime Advertising Expenditures for Fiscal Year 1986

Agency and contract number	Large business	Small business	Minority business	Nonprofit (Ad Council)
Secretary of Defense:				
MDA90383D0307 <sup>a</sup>	\$11,772,000			
MDA90385D0016		\$709,000		
MDA90385D0101 <sup>a</sup>	92,765,000 <sup>b</sup>			
MDA90485CA551		650,000		
MDA90386C0067				\$50,000
MDA90386C0321				508,000
Dept. of the Air Force:				
F0965083D0008		50,000		
F0965085C0057		1,399,000		
F3360186D0004	41,000			
F4168982D0008	452,000			
F4168986D0001 <sup>a</sup>	5,209,000			
F4265085D3443		28,000		
Dept. of the Navy:				
M0002786C0001 <sup>a</sup>	9,177,000			
N0060085A0895			\$546,000 <sup>c</sup>	
N0060085C0012 <sup>a</sup>	28,724,000			
N0060085C1129	56,000			
N0060086C2702	174,000			
N0061286D0125		248,000		
N6053086C0456		28,000		
Dept. of the Army:				
DAHA9084D0001 <sup>a</sup>	7,329,000 <sup>d</sup>			
<b>Total</b>	<b>\$155,699,000</b>	<b>\$3,112,000</b>	<b>\$546,000</b>	<b>\$558,000</b>

<sup>a</sup>Contracts subject to section 211.

<sup>b</sup>This contract was awarded by the Secretary of Defense but was for the Army's advertising contract.

<sup>c</sup>This award was made under a basic ordering agreement. A basic ordering agreement is a written instrument of understanding. It is not a contract. A limitation to this type of agreement is that it does not state or imply any agreement by the federal government to place future contracts or orders with the contractor. Thus, the contractor does not have the security of having a contract with the government.

<sup>d</sup>This contract was awarded by the Army for the National Guard.

Source: Federal Procurement Data System.

# Civilian Agencies' Prime Advertising Expenditures for Fiscal Year 1986

	Large business	Small business	Minority business	Nonprofit Ad Council
Department of Agriculture (Forest Service)		\$203,000		
Department of Commerce (Industry and Trade Administration)				\$11,000
Department of Health and Human Services: Alcohol, Drug Abuse, and Mental Health Administration		778,000		150,000
National Institutes of Health			\$820,000	
Department of the Interior		15,000		
Department of Transportation (U.S. Coast Guard)			174,000	
Department of the Treasury (Internal Revenue Service)		2,454,000		
Environmental Protection Agency			120,000	
General Services Administration		103,000		
Peace Corps				226,000
Selective Service System		266,000		
Tennessee Valley Authority	\$250,000			
	<b>\$250,000</b>	<b>\$3,819,000</b>	<b>\$1,114,000</b>	<b>\$387,000</b>

Source: Federal Procurement Data System.



# Reported Achievements

As table VII.1 illustrates, only the Marine Corps claimed not to nearly meet its small disadvantaged subcontracting percentage goal. The JRAP contractor erroneously reported to have slightly exceeded its percentage goal.

**Table VII.1: Small Disadvantaged Business Goals With Questionable Reported Achievements**

DOD agencies	Goals established		Reported achievements <sup>a</sup>	
	Dollars	Percent	Dollars	Percent
Army	\$7,500,000	10.0	\$6,900,000	9.2
Navy	393,000	4.8	580,000	4.5
Marine Corps	380,000	3.0	81,000	0.7
JRAP	43,877	8.0	42,281	8.4
National Guard <sup>b</sup>	•	•	•	•
Air Force <sup>b</sup>	72,800	1.3	•	•

<sup>a</sup>The reported achievements are based on different totals.

<sup>b</sup>We were unable to determine the achievements of the National Guard and the Air Force because neither the contractors nor the agencies could provide us with the appropriate data.

Source: Contractors' records and their reports to DOD.

# Expenditures by Media

In response to Representative Cardiss Collins' request for us to determine how much was spent by medium, we obtained the information presented in tables VIII.1 and VIII.2 from DOD agencies or their contractors. We were unable to substantiate the validity of these figures with actual delivery orders.

**Table VIII.1: Amount Agencies Spent on General Audience Advertising in Fiscal Year 1986**

Agency	Radio	Television	Newspaper	Magazine
Navy	\$0	\$5,738,404	\$0	\$4,023,227
Marine Corps	125,354	5,691,768	662,228	1,077,630
Army	14,831,784	27,958,765	4,862,405	13,202,600
JRAP	0	13,306,511	33,654	944,548
Air Force	2,888,053	692,004	3,259,745	5,459,604
National Guard	0	0	0	0
<b>Total</b>	<b>\$17,845,191</b>	<b>\$53,387,452</b>	<b>\$8,818,032</b>	<b>\$24,707,609</b>

**Table VIII.2: Amount Agencies Spent on Minority Audience Advertising in Fiscal Year 1986**

Agency	Radio	Television	Newspaper	Magazine
Navy	\$0	\$0	\$0	\$485,379
Marine Corps	0	43,010	1,339	26,325
Army	2,589,700	762,100	90,900	736,500
JRAP	0	0	0	0
Air Force	85,580	0	52,928	21,558
National Guard	0	0	0	0
<b>Total</b>	<b>\$2,675,280</b>	<b>\$805,110</b>	<b>\$145,167</b>	<b>\$1,269,762</b>

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# One Agency With Program to Spur Contracts to Minority Advertising Firms

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Only 1 of the 20 procuring agencies we contacted, the Department of Housing and Urban Development (HUD), had a program in place in fiscal year 1986 to direct it to conduct business with minority advertising companies. In October 1983, the HUD Secretary established a goal to spend 15 percent of advertising dollars on minority media. The program is still in effect. HUD reports that it has either met or exceeded the 15-percent goal. Our review of advertising services expenditures from the FPDS did not report any expenditures for HUD during fiscal year 1986. According to a HUD official, the services were purchased on a local basis and no contracts were individually more than \$25,000. Therefore, HUD would not have been listed in the FPDS report.

We surveyed the agencies listed below to determine if they had a program in place directing them to conduct business with minority advertising companies.

- Department of Agriculture
- Department of Commerce
- Department of Defense
- Department of Education
- Department of Energy
- Department of Health and Human Services
- Department of Housing and Urban Development
- Department of the Interior
- Department of Justice
- Department of Labor
- Department of State
- Department of Transportation
- Department of the Treasury
- Environmental Protection Agency
- General Services Administration
- Peace Corps
- Selective Service System
- Tennessee Valley Authority
- Small Business Administration
- Office of Management and Budget

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# Advertising Council

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Besides using private, for-profit contractors, federal agencies may also contract with the nonprofit Advertising Council, Inc., to conduct advertising campaigns. In 1987, 15 federal campaigns were run by the Council; only 2 campaigns utilized a minority advertising company. The same minority advertising company was used twice to address minority audiences only. This appendix describes the Council's federal campaigns and services performed for the federal agencies under contract by the Advertising Council.

In order for any advertising agency to get selected for an Advertising Council campaign, it must hold membership with the American Association of Advertising Agencies. Although the association has a large membership, only a few are minority advertising agencies.

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## Background on the Advertising Council

The Advertising Council is a private, nonprofit organization supported by the advertising industry, communications media, and business community. The Council receives over 400 requests annually to conduct public service advertising campaigns. However, only about 30 to 35 campaigns are accepted. The Council's board of directors reviews each request to determine if it is noncommercial, nonpolitical, and national in scope. The requests come from private organizations, government agencies, and sometimes from within the Council itself. The Council depends entirely on individuals from business, the media, and advertising agencies to get the job done.

The Council's unique position is due to its success in encouraging national and local media to contribute free public service time on radio and television and free space in newspapers, consumer magazines, business press, outdoor billboards, and other advertising media. In calendar year 1986, the contributed time and space donated by the media to publish, post, and broadcast the Council's advertising totaled about \$1.1 billion.

Most advertising agencies are eager to get campaigns because they consider them as opportunities to showcase the agency's creative talent, and because of the high visibility or heavy media exposure the Council's campaigns receive.

Once a campaign is accepted by the Council's board of directors, an advertising agency must be selected to do the job. The American Association of Advertising Agencies selects advertising agencies for the Council. The advertising agencies that are selected must hold membership

with the association. The Association has provided this service to the Council since 1942. Once the Association assigns an advertising agency, it does not get involved in the Council's campaigns.

According to an Association official, as campaigns become available, advertising agencies are selected in the order listed on a roster maintained by the Association. Occasionally, however, the Association departs from the listing if a campaign has specialized needs. It is also possible to have several different agencies on one contract if there are specialized needs. In the "Answer the Census" and "Vote" campaigns, for example, a minority advertising firm was asked to create campaign materials to capture minority audiences.

As of March 1988, Association membership totaled about 750 members. Of these members, only six were minority-owned advertising agencies. For calendar years 1986 and 1987, only one minority advertising agency was selected for two separate Council campaigns. While all of the minority advertising agency owners we interviewed held membership with the Association, they recognized the difficulty that a small advertising agency would encounter trying to meet the substantial membership fees needed to join such an organization. Yearly fees can range from \$1,000 to \$45,000 plus \$300 for each full \$500,000 of gross income in excess of \$48 million.

According to an information brochure on the American Association of Advertising Agencies' membership,

"... as to size of agency, while there is no minimum requirement, our Board has usually found that it is difficult for an agency having annual gross income under \$100,000 to show that it is adequately equipped to render complete agency service in reasonable conformity with the Agency Service Standards. Furthermore, until the agency reaches that size, it is doubtful that it can benefit sufficiently from membership to justify the cost. Until that time, it seems better for the agency to devote its income to its own growth and development."

Minority firms that are smaller than those that the Association recommends for membership miss the opportunity, therefore, of being selected to do a Council campaign.

## Examination of Federal Contracts' Statements of Work/ Specifications With the Council

According to statements of work in the contracts, production of television and radio kits, preparation of newspaper and consumer magazine advertisements, and research analysis were the most common services performed by the advertising agencies for the Council. Federal contracts with the Advertising Council during 1986 and 1987 are detailed in tables X.1 and X.2.

**Table X.1: Federal Government Contracts With the Advertising Council, Inc., as of Calendar Year 1987**

Federal agency	Description/purpose of campaigns	Year campaign started	Number of advertising agencies involved in calendar years 1986 and 1987	Type of advertising agency
Department of Commerce/Bureau of Census	Answer the Census.  To achieve the highest possible rate of accurate response from the American public to the 1990 Census of Population and Housing, the 1987 Economic and Agriculture Census, and the Census Bureau's on-going current survey.	1987	2	One nonminority One minority
Department of Transportation	Buckle Your Safety Belt.  To enhance public awareness of the unmistakable advantages of occupant safety devices and the importance of using them.	1985	1	Nonminority
Commission on the Bicentennial of the United States Constitution	Commemoration of the Bicentennial of the U.S. Constitution.  To create greater awareness of the importance of the U.S. Constitution and the role each individual has in its execution and preservation. The goal is to practice more active citizen-ship, which could include everything from voting, to having views on important issues, to running for public office.	1987	1	Nonminority
Department of Justice	Crime Prevention. <sup>a</sup>  To encourage Americans to form neighborhood watch programs in their communities to reduce residential burglary.	1978	1	Nonminority
Department of Health and Human Services	Drug Abuse Prevention.  To counter the increasing trend in drug usage.	1983	1	Nonminority

(continued)

**Appendix X  
Advertising Council**

<b>Federal agency</b>	<b>Description/purpose of campaigns</b>	<b>Year campaign started</b>	<b>Number of advertising agencies involved in calendar years 1986 and 1987</b>	<b>Type of advertising agency</b>
Department of Transportation	Drunk Driving Prevention.  To increase public awareness of the dangers of the consumption of alcohol and driving.	1983	1	Nonminority
Department of Defense	Employer Support of the National Guard and Reserve.  To help raise awareness of the critical role that the Guard and Reserve play in our national defense.	1973	2	One nonminority One minority
Department of Commerce	Export Awareness.  To increase the interest of small and medium size companies in international trade.	1986	1	Nonminority
Department of Agriculture	Food Stamp Information Program. <sup>b</sup>  To inform eligible Americans about food stamp availability.	1985	1	Nonminority
Department of Agriculture	Forest Fire Prevention.  To increase public knowledge and concern over the money spent and natural resources wasted by fires caused by people.	1942	1	Nonminority
Peace Corps	Peace Corps.  To recruit over 100,000 volunteers to build food systems in Africa, fight malaria in Asia, and train teachers to combat illiteracy in South America.	1961	1	Nonminority
Department of the Interior	Protect Your Public Lands/Take Pride in America.  To increase public awareness of each individual's responsibility to care for public lands and natural resources.	1985	1	Nonminority
Department of Defense	Vote.  To overcome voter apathy and lack of motivation regarding the voting process. Special advertising was created for minority and female voters.	1984	3	Two nonminority One minority

(continued)

**Appendix X  
Advertising Council**

<b>Federal agency</b>	<b>Description/purpose of campaigns</b>	<b>Year campaign started</b>	<b>Number of advertising agencies involved in calendar years 1986 and 1987</b>	<b>Type of advertising agency</b>
Department of Health and Human Services	<p><i>Understanding Your Social Security Benefits.</i></p> <p>To help make individuals aware of their benefits and responsibilities under the Social Security System and help ensure that they receive the benefits to which they are entitled promptly and efficiently.</p>	1985	1	Nonminority

<sup>a</sup>Combination of federal government and private campaign.

<sup>b</sup>Went from private to federal government campaign.



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**Table X.2: Services Performed Under Contract by the Advertising Council**

<b>Federal government campaigns for 1986 and 1987</b>	<b>TV spots</b>	<b>Newspapers</b>
Answer the Census	X	X
Buckle Your Safety Belt	X	X
Commemoration of the Bicentennial of the U.S. Constitution	X	X
Crime Prevention	X	X
Drug Abuse Prevention	X	X
Drunk Driving Protection	X	X
Employer Support of the Guard and Reserve	X	X
Export Awareness	X	X
Food Stamp Information Program	X	X
Forest Fire Prevention	X	X
Peace Corps	X	X
Protect Your Public Lands/Take Pride in America	X	X
Vote	X	X
Understanding Your Social Security Benefits	X	X
<b>Totals</b>	<b>14</b>	<b>14</b>
<b>Federal government campaigns for 1986 and 1987</b>	<b>Educational pamphlets</b>	<b>Cable TV spots</b>
Answer the Census	X	X
Buckle Your Safety Belt		
Commemoration of the Bicentennial of the U.S. Constitution		
Crime Prevention		
Drug Abuse Prevention		
Drunk Driving Protection		
Employer Support of the Guard and Reserve		
Export Awareness		
Food Stamp Information Program	X	
Forest Fire Prevention		
Peace Corps		
Protect Your Public Lands/ Take Pride in America		X
Vote		
Understanding Your Social Security Benefits	X	
<b>Totals</b>	<b>3</b>	<b>2</b>

**Appendix X  
Advertising Council**

<b>Radio spots</b>	<b>Consumer magazines</b>	<b>Business press</b>	<b>Transit display posters</b>	<b>Research analysis</b>	<b>Movie theater short subjects</b>	<b>Slide presentations</b>	<b>Outdoor billboards</b>
X	X	X	X	X	X	X	X
X	X	X	X	X	X	X	X
X							
X	X	X	X				
X	X	X					
	X	X	X				
							X
X	X	X	X			X	
	X						
X	X			X			
X	X	X	X	X	X		
X	X						
<b>9</b>	<b>10</b>	<b>7</b>	<b>6</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>3</b>
<b>Stickers, buttons, and patches</b>	<b>Response kits</b>	<b>Armed Forces network</b>	<b>Messenger service</b>	<b>Posters</b>	<b>Fulfillment houses</b>		
X							
			X				
		X					X
						X	
		X		X			
X							
<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>

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