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March 31, 2005

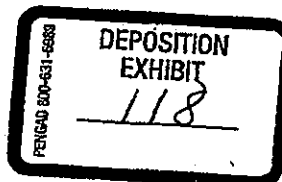
Mr. Nick Camera, Senior Vice President, General Counsel and Company Secretary
Mr. Thomas A. Dowling, Senior Vice President, Chief Risk Officer
Ms. Marge Hoey, Associate General Counsel and Assistant Company Secretary
The Interpublic Group of Companies, Inc.
1114 Avenue of the Americas
New York, NY 10036

Dear Mr. Camera, Mr. Dowling and Ms. Hoey:

REDACTED

Deloitte & Touche LLP

ATTORNEYS EYES ONLY



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Mullen079127

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Mr. Thomas A. Dowling, Senior Vice President, Chief Risk Officer
Ms. Marge Hoey, Associate General Counsel and Assistant Company Secretary
The Interpublic Group of Companies, Inc.
1114 Avenue of the Americas
New York, NY 10036

Re: Mullen LHC Kickback Investigation Report S-05-03

Deloitte & Touche LLP Internal Audit Services ("IAS") has completed its investigation into allegations of kickbacks at Mullen Long-Haynes-Carr ("Mullen"), in Winston-Salem, NC.

Background

In December 2003, Guy Blynn, General Counsel for RJ Reynolds Tobacco ("RJR") informed IPG Legal that an RJR employee had received an allegation from an informant that vendors for RJR's One-Sheet program were paying kickbacks to the Mullen employee responsible for the program, Carl Haynes. After several discussions with RJR management, the matter was referred to IAS for investigation on March 31, 2004.

IAS contacted the informant, who provided additional details related to his allegation. He told us that Carl Haynes, VP and Out-Of-Home Group Director at Mullen, was responsible for the One-Sheet program for RJR. He explained that One-Sheets were poster-sized advertisements normally placed outside of convenience stores. The One-Sheet vendors typically replaced the ads every one to two months, and "riders," independent contractors hired by Mullen, would visit the stores to ensure the ads were posted properly.

The informant told us that RJR originally managed its One-Sheet program internally, and that Mr. Haynes was formerly the RJR employee responsible for the program. At the time, RJR used the informant's company and five other vendors, including Gateway Communications ("Gateway") in New Jersey and Carteles in California, to post the One-Sheets. One of the riders was John Roberts, who was also friends with Mr. Haynes. In the early 1990's RJR eliminated its One-Sheet program. The informant told us that after the One-Sheet vendors were informed that their contracts were being terminated, they paid approximately \$40,000 to Mr. Haynes in exchange for extending their contracts for 3 more months, which he did. The informant admitted that he himself had paid \$12,000 to Mr. Haynes in the early 1990's.

ATTORNEYS EYES ONLY

Mullen LHC Kickback Investigation Report S-05-03

Page 2 of 5

March 31, 2005

The informant also told us that Mullen hired Mr. Haynes in 1995 and began servicing RJR's One-Sheet program shortly thereafter. Initially, Carteles was the sole One-Sheet vendor, and they were responsible for RJR postings across the country. In 1999, Craig Heard of Gateway allegedly approached Mr. Haynes and asked for a portion of the One-Sheet business in exchange for kickbacks. The informant told us that shortly thereafter, Mr. Haynes transferred most of the East Coast regions to Gateway. Beginning in 2004, Mr. Haynes transferred additional regions to Interstate Outdoor Advertising ("Interstate"), run by Tom Glenn and to Carney Media. The informant told us that Mr. Glenn was a long-time friend of Mr. Roberts, who was also a rider for Mullen. The informant suspected that to compensate for the decreased margins that resulted from paying kickbacks to Mr. Haynes, Gateway and Interstate were not posting as many One-Sheets as they were obligated to. He further stated that Carteles was a good vendor and he did not suspect Carteles or Carney Media of paying kickbacks or under-posting.

Scope and Procedures

Our investigation was comprised of a review of company documents including personnel records and invoices, interviews of vendors, a review of documents provided by vendors, public record searches of key suspects and forensic imaging and review of company computers used by suspect employees. We also conducted an admission-seeking interview of Mr. Haynes.

Case Findings

IAS reviewed personnel files for Mr. Haynes, as well Carol Sterling, Marianne King and Gerald Troutman, who were also Mullen employees working in the Out of Home department and performed public record searches on Mr. Haynes and Ms. Sterling, who were both prior RJR employees. We were unable to develop any evidence that any of these people had an unusually high lifestyle compared to their income. We found that Mr. Haynes had two married daughters, Jennifer Spencer and Angela Nowak. Ms. Spencer had filed for bankruptcy in 2001. We also found that on March 27, 1998, Ms. Nowak became the registered agent for Transit Ads, aka Carteles.

We imaged and analyzed the documents obtained from the work computers of Mr. Haynes, Ms. Sterling, Ms. King and Mr. Troutman. None of the documents we reviewed revealed information suggesting that Ms. Sterling, Ms. King or Mr. Troutman were involved in a kickback scheme. We found a substantial number of e-mails and documents suggesting that Mr. Haynes was receiving commissions from Gateway, Interstate and Mr. Robert's company, Power Sales Advertising ("PSA").

We found on Mr. Haynes' computer an unsigned contract between High Plains ("HP") and PSA dated October 2003. The contract stated that "PSA shall remunerate HP a sales commission equal to 5% of gross revenues¹ ... on all One-Sheet contracts arranged, delivered, and/or secured by HP on behalf of PSA." We noted that the address for HP on the contract was Mr. Haynes' home address. In addition, the contract identified Mr. Haynes as the signatory for HP. We also noted that beginning in January 2004, several One-Sheet regions including Philadelphia, Baltimore and Boston shifted from Carteles to Interstate, and that New York City, Albany, Buffalo, Harrisburg and Hartford, which had previously shifted from Carteles to Gateway, were given to Interstate. PSA was the rider for Philadelphia, Boston and New York City, the largest markets.

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¹Gross Revenues refers to "One Sheet" costs prior to standard agency commission

Mullen LHC Kickback Investigation Report S-05-03

Page 3 of 5

March 31, 2005

In addition, an Excel schedule found on Mr. Haynes' computer calculated a 5% commission payable to HP on Interstate sales. Similar Excel schedules were also found showing HP commissions of 8% from Gateway. We accumulated all the invoices from Gateway and Interstate for the period 1999 through September 2004, and applied the commission rates per Mr. Haynes Excel schedules. The aggregate amount of commissions due under the agreements for the five year period was approximately \$1.3 million.

We reviewed and analyzed invoices for all the One-Sheet vendors on the RJR account from 1999 through September 2004. We noted that the price per unit was initially \$85, but it was reduced in 2004 to \$74. We compared the 2004 price per unit to the 2004 market rate charged by ISO, another IPG agency that posts One-Sheets, and were informed that the standard industry charge is \$85 per unit, or 15% more than the price charged to RJR.

We also obtained lists of stores where One-Sheets were supposed to be posted and selected a small sample of stores to visit in September 2004. We review 14 stores in Chicago, which is Carney Media's territory and 23 in New York City, which Interstate is responsible for. We found that all the One-Sheets in Chicago were posted, and 86% were posted properly. In New York only 30% were posted properly and for 48% of our sample no ad was posted or the store did not exist. At the request of RJR, Mullen hired independent riders to perform extensive testing in approximately 15 additional markets to compare performance rates for all the One-Sheet vendors. They found proper postings in regions serviced by Carteles and Carney for approximately 85%-95% of stores, and found posting rates as low as 30% for Interstate and Gateway in January 2005.

In our interview of Mr. Haynes on December 16, 2004, he admitted that he established HP in about around 1999 to receive payments for placement of One-Sheets. He told us that while he mentioned to Ray Trosan, his supervisor at Mullen, that he had a consulting company, he never disclosed the specifics to Mullen management or in his code of conduct. Mr. Trosan denied that Mr. Haynes had told him about owning a consulting company or that he was receiving commissions from the vendors. Mr. Haynes also informed us that no other employee was involved in or had knowledge of the one-sheet scheme. He further stated that the payments he received were solely from Gateway and Mr. Roberts and related to RJR One-Sheets. He told us that most Gateway payments were received via wire and that Mr. Roberts paid him in cash. He also claimed that he had reported all the income on his personal income tax returns.

Mr. Haynes stated that he thought that RJR had not been damaged by his actions by either over-pricing or under-performance. He said that between 2003 and 2004 he negotiated the price per One-Sheet down 17% for all vendors. He also said that he paid his daughters from his HP revenue to perform One-Sheet rides and that they had not found any issues with non-performance. He emphasized that these store visits were not paid for by Mullen or RJR, who only paid for the rides performed by Mullen's contractors.

ATTORNEYS EYES ONLY

Mullen LHC Kickback Investigation Report S-05-03

Page 4 of 5

March 31, 2005

Mr. Haynes told us that he believed he had received at least \$300,000 from Gateway and approximately \$50,000 from Mr. Roberts. He claimed that he spent most of the money on court costs and legal fees for his daughter, Ms. Nowak, and her husband, paid off debt incurred during his divorce and spent the rest of the money on his daughters. He offered to provide us copies of his tax returns and bank statements, which he delivered after the interview. He also signed an Authorization to Release Information, which we sent to his banks.

We reviewed the tax returns and financial documents provided by Mr. Haynes, and noted that he reported \$550,000 in revenue for the years 2000 through 2003. He reported receiving \$525,000 from Gateway and \$25,000 from Boss Media, which had no apparent connection to Mullen. Mr. Haynes offset his revenue with payments to his daughters for One-Sheet rides, as well as their personal living expenses. We also noted in documents obtained from Mr. Haynes' computer that he had given American Express Business Cards for HP to both his daughters, and asked them to use the cards so that he could take a write-off.

We interviewed Craig and Brad Heard, the owners and managers of Gateway, who provided us with a copy of a consulting agreement between Gateway and HP. They told us that Mr. Haynes gave them a portion of the One-Sheet business related to RJR only after they agreed to pay him. They were under the impression that Mullen management was aware of their relationship with HP and that all the other One-Sheet vendors were paying Mr. Haynes, but had no evidence to support either impression. They claimed that they posted One-Sheets in accordance with their contract with Mullen, and that there were no issues with under-performance, claiming instead that they gave up their personal commissions on the sales, which were normally 5-8%, in order to pay Mr. Haynes. They provided us with a full listing of payments made to Mr. Haynes and his daughters, showing a total of \$735,000 between 2000 and 2004. They told us that they had been holding approximately \$50,000 in their bank account for Mr. Haynes, at his request, but after learning that the arrangement had not been approved by Mullen, would not pay Mr. Haynes any additional money.

We interviewed Lew Katz, principal of Interstate, and his attorney, Robert Minion of Lowenstein Sandler, PC. Mr. Minion provided us with a contract dated June 8, 2004 between PSA and Master Media, the subsidiary of Interstate that is responsible for One-Sheets. It provided for a 15% commission to be paid to PSA as a broker fee. It also required that Mullen be informed of the broker relationship which Mr. Minion told us was PSA's responsibility. We discussed the relationship with Mullen management, who were not aware of the arrangement. Mr. Minion said that no payments had been made from Interstate or Master Media to Mr. Haynes, directly or indirectly.

We left messages for Mr. Roberts, but he did not return our calls. As a result, we were unable to obtain any financial information from him. We estimated that Interstate paid PSA \$291,000 in 2004 based on the contractual 15% commission. We note that these payments were in addition to the riding fees that Mullen paid Mr. Roberts, which were \$250 per day, or an estimated \$25,000 per year. Based on our interview of Mr. Haynes, and our review of his Excel schedules and the PSA/HP contract, it appeared that Mr. Roberts had agreed to pay Mr. Haynes 5% of Interstate's RJR One-Sheet revenue. Based on our review of the Interstate invoices we approximate that Mr. Haynes' 5% payment would have been approximately \$100,000. We were not able to confirm this amount.

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Mullen LHC Kickback Investigation Report S-05-03
Page 5 of 5
March 31, 2005

Case Resolution

IPG Legal and Mullen management communicated the results of the investigation to RJR. RJR advised that it was not seeking reimbursement for past non-performance, but that it wanted to discontinue business with the offending vendors and to pursue criminal actions against Mr. Haynes.

Mr. Haynes was suspended without pay on December 16, 2004, and terminated shortly thereafter. The contracts with Gateway and Interstate were cancelled effective April 1, 2005 at RJR's request. IAS will continue to support IPG Legal, as requested, while it considers further action against Mr. Haynes and the vendors.

If you have any questions or comments, please contact one of the following:

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cc:

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