Chapter

3

The Sponsorship Program

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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The Sponsorship Program

Main Points

3.1 From 1997 until 31 August 2001, the federal government ran the Sponsorship Program in a way that showed little regard for Parliament, the *Financial Administration Act*, contracting rules and regulations, transparency, and value for money:

- Parliament was not informed of the program's objectives or the results it achieved and was misinformed as to how the program was being managed.
- Those responsible for managing the program broke the government's own rules in the way they selected communications agencies and awarded contracts to them.
- Partnership arrangements between government entities are not unusual in programs of mutual benefit. However, some sponsorship funds were transferred to Crown corporations using unusual methods that appear designed to provide significant commissions to communications agencies, while hiding the source of funds and the true nature of the transactions.
- Documentation was very poor and there was little evidence of analysis to support the expenditure of more than $250 million. Over $100 million of that was paid to communications agencies as production fees and commissions.
- Oversight mechanisms and essential controls at Public Works and Government Services Canada failed to detect, prevent, or report violations.

3.2 Since Communications Canada's creation in September 2001, there have been significant improvements in the program's management, including better documentation and more rigorous enforcement of contract requirements.

Background and other observations

3.3 A new sponsorship program has been announced that, if properly implemented, will improve transparency and accountability. For example, the program will be delivered using contribution agreements with event organizers directly rather than contracts with communications agencies. Whatever mechanisms are used, Parliament needs to be assured that public funds are being administered in compliance with the rules and in a manner that ensures fairness, transparency, and the best possible value for money.

3.4 While this chapter includes the names of various contractors, it must be noted that our conclusions about management practices and actions refer only to those of public servants. The rules and regulations we refer to are those that apply to public servants; they do not apply to contractors. We did not audit the records of the private sector contractors. Consequently, our conclusions cannot and do not pertain to any practices that contractors followed.

The Privy Council Office, on behalf of the government, has responded. The entities we audited agree with the findings contained in chapters 3, 4 and 5. Our recommendations and the detailed responses appear in the Overall Main Points at the beginning of this booklet.

Introduction

Origins of the Sponsorship Program

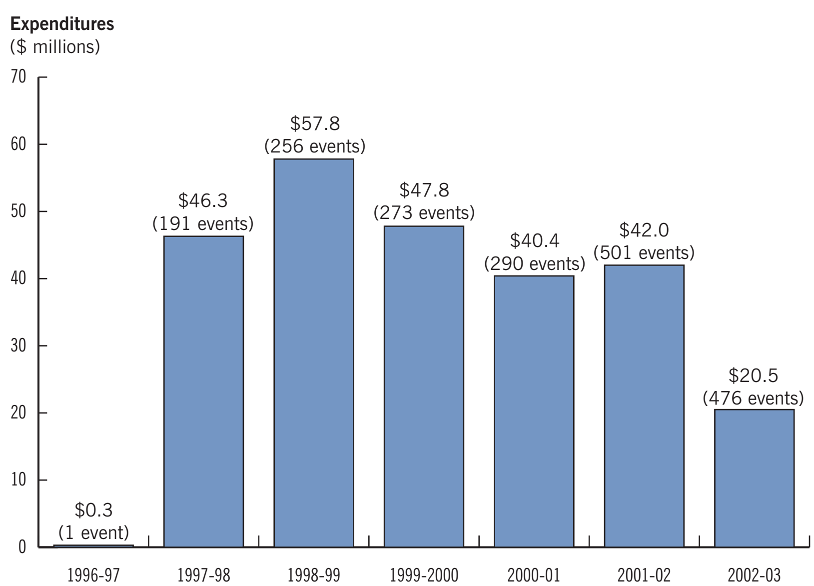
3.5 In November 1997, a new branch of Public Works and Government Services Canada (PWGSC) was created as a result of concerns about the federal presence and visibility across Canada, the effectiveness of the federal government's communications activities, and the need for an integrated structure to deliver those activities. The mandate of the new Communications Co-ordination Services Branch (CCSB) was to co-ordinate, promote, advise, and facilitate federal communications initiatives.

CCSB—In this chapter CCSB refers to the former branch of PWGSC and not to any other branch of the same name in other departments.

3.6 One vehicle for delivering that mandate was the Sponsorship Program, created in 1997. Sponsorships were arrangements in which the Government of Canada provided organizations with financial resources to support cultural and community events. In exchange, the organizations agreed to provide visibility by, for example, using the Canada wordmark and other symbols such as the Canadian flag at their events, and on promotional material.

3.7 Sponsorships were intended to encourage a positive perception of the government through its association with popular events and organizations in fields such as sports and culture. They would also increase the federal presence and visibility in communities across Canada. From 1997 until 31 March 2003, the Government of Canada spent about $250 million to sponsor 1,987 events (Exhibit 3.1). Over $100 million of that (40 percent of total expenditures) was paid to communications agencies as production fees and commissions.

Exhibit 3.1 Sponsorship Program—Expenditures and events sponsored



Source: Communication Canada

3.8 Sponsorships were to be managed in two distinct ways, depending on their dollar value. Those valued at less than $25,000 were to be managed only by a communications agency contracted by CCSB; for sponsorships over $25,000, CCSB was to contract both with an agency of record to provide financial management services on behalf of CCSB and with a communications agency.

3.9 In March 2002, the Minister of Public Works and Government Services asked the Office of the Auditor General to audit the government's handling of three contracts totalling $1.6 million that had been awarded to Groupaction Marketing (Groupaction), a communications agency based in Montréal. The audit report, presented to the Minister on 6 May 2002, revealed significant shortcomings at all stages of the contract management process.

3.10 The nature of the findings was such that the Auditor General referred the matter to the RCMP and also decided to undertake a government-wide audit of the Sponsorship Program (as well as the public opinion research and advertising activities of the Government of Canada, including those of Crown corporations—see chapters 4 and 5 of this Report).

Focus of the audit

3.11 Our audit examined the management of the Sponsorship Program by CCSB up to 31 August 2001, when Communication Canada was created by the amalgamation of CCSB and the Canada Information Office; we examined the subsequent management of the program by Communication Canada. We looked at whether the program complied with the federal government's regulations and policies that govern contracting and the proper handling of public money. We assessed the program's design, the management of individual sponsorship projects, and the measurement of project and program results. We also assessed the quality of documentation in the files. We selected a sample of sponsorship projects and reviewed them in detail. We also interviewed staff and former staff of the Sponsorship Program.

3.12 Further, we selected a sample of transactions involving payments by CCSB to Crown entities, including Crown corporations. We audited the way both CCSB and the Crown entities managed the transactions. At the conclusion of the audit, we also interviewed two former ministers and a former deputy minister of PWGSC who had been involved in the Sponsorship Program. Further details are found at the end of the chapter in **About the Audit**.

3.13 It must be noted that our conclusions about the management practices and actions for contracting refer to those of public servants. The rules and regulations we refer to are those that apply to public servants; they do not apply to contractors. We did not audit the records of the private contractors. Consequently, our conclusions cannot and do not pertain to any practices that contractors followed.

Observations

Parliament was not informed of the Sponsorship Program's true objectives

3.14 When it created the Sponsorship Program, the federal government did not inform Parliament of the program's real objectives; nor has it ever reported the results. Former officials of CCSB told us that after the 1995 Quebec referendum, the government wanted to raise its profile in Quebec by sponsoring local events and so it set up the Sponsorship Program. However, we saw no such direction from the government and no formal analysis or strategic plan. In the absence of any written direction from the Deputy Minister or the Executive Committee of PWGSC and any written decision by the Cabinet or the Treasury Board, it is not clear to us how the decision to create the program was made, and by whom. Nor is it clear why the decision was not communicated in writing.

3.15 However, the Treasury Board approved increased funding for PWGSC's communications activities in order to promote the government's programs and services following the Quebec referendum. PWGSC had to ensure that initiatives conformed to Treasury Board policies and guidelines; that all communications services would be competitive, as required; and that contracts would be issued appropriately.

3.16 We found that PWGSC failed to ensure that before allocating funds, it had established an adequate control and oversight framework for the Sponsorship Program. Even though communication was a ministerial priority, the *Financial Administration Act* still applied.

3.17 We were informed that the program was promoted in Quebec but not elsewhere in Canada. As people outside Quebec became aware of the program, the government received some applications and approved some sponsorships of some events in other provinces. However, from 1997 to 2000, the vast majority of regional events sponsored were in Quebec.

3.18 We reviewed PWGSC's performance reports. None of them mentioned the program until 2001, even though sponsorships accounted for more than half of CCSB's annual spending. The 2001 *Performance Report* discussed the Sponsorship Program but made no reference to its objectives and its emphasis on events in Quebec. It simply stated that 291 events had been sponsored across Canada. Parliament was not informed that the primary focus of the program was on Quebec.

3.19 Given the importance of the objectives described to us by officials and the significance of the program's spending (more than $250 million from 1997 to March 2003), we would have expected the government to provide Parliament with at least a description of the program, its objectives, its expenditures, and the results it achieved.

Program controls and oversight

Few people involved in delivering the program

3.20 Normally, central divisions of PWGSC manage the procurement and financial activities of that Department's branches. For the Sponsorship Program, however, contracting and financial management were handled by the CCSB and not a central division. CCSB's Executive Director reported to the Deputy Minister of PWGSC and had direct access to the Minister and his staff, which further reduced normal control and oversight provisions.

3.21 Staff of CCSB told us that an Executive Director had not involved them in making decisions on sponsorships. They described to us the following process (much of this was confirmed to us by a former Minister of Public Works and Government Services):

- CCSB contracted with a communications agency to identify potential sponsorship opportunities in Quebec. The agency provided some information verbally, but there are no written records of that information.
- CCSB received unsolicited sponsorship proposals from a number of sources, including other government departments, event/activity/project organizers, communications agencies, community groups, and non-governmental organizations. Some requests were made to the Minister and forwarded to CCSB.
- The Executive Director of CCSB reviewed the requests and decided which events would be sponsored and which communications agency would get the contract. Project files were discussed with the Minister's office at various times.
- At the request of the Executive Director, program staff prepared the requisition and forwarded it to CCSB's procurement staff, who completed the contract.
- The Executive Director approved the payments to the contracted communications agencies.

These procedures violate two fundamental principles of internal control: segregation of duties and appropriate oversight.

Weak control environment

3.22 In *Results for Canadians*, the management framework for the federal government, the Treasury Board states that departments and agencies are responsible for ensuring that they have adequate management frameworks to achieve results and manage resources. This means, among other things, that they must maintain robust internal controls and be vigilant to detect early any conditions that could lead to a control failure. The Sponsorship Program operated in a weak control environment: procurement and financial activities were handled within CCSB with little oversight by PWGSC's central services, communications agencies and events to be sponsored were selected by only a few individuals, and the same individuals who approved the projects also approved invoices for payment. Roles and responsibilities were not segregated to eliminate, as far as possible, any opportunities for fraud and misstatement or an override of controls by management.

3.23 **No written program guidelines.** Written guidelines can be a key tool for delivering any program consistently, fairly, and transparently: they can provide clear criteria for eligibility, set out the conditions attached to financial support, and in this case, provide guidance on levels of sponsorship. We noted that the Sponsorship Program operated with no guidelines from its inception in 1997 until 1 April 2000, resulting in ad hoc selection and approval of projects and decisions on levels of sponsorship funding. In our review of files, we found it impossible in most cases to determine why an event was selected for sponsorship, how the dollar value of a sponsorship was determined, or what federal visibility the sponsorship would achieve.

Lack of transparency in decision making

3.24 To understand how decisions had been made, given that they were rarely documented, we interviewed staff who had been involved in the Sponsorship Program. Apparently only a handful of people had participated in decision making, and those who remain at PWGSC, Communication Canada, and other government departments were unable to tell us why certain decisions had been made.

3.25 They noted that the Executive Director had discussed sponsorship issues with the Minister. A retired Executive Director told us that his discussions with the Minister were only to provide information. He said that he and his staff had decided what events would be sponsored and at what level. He told us that he had also relied on verbal advice from a communications agency but had not documented that advice.

3.26 The former Minister stated that his office had not decided which events to sponsor. He confirmed that there had been no written objectives or guidelines but also stated that the program had been part of the national unity strategy.

3.27 We found a memo in one file indicating that the Minister's office had overturned a decision by program staff not to sponsor an event; the memo said the Minister's office would inform the event's organizer. The file did not show who in the Minister's office had made the decision and why, or how the level of sponsorship funding had been determined.

3.28 Another recipient of funding said his request had been denied initially. At the Executive Director's suggestion, he discussed the matter with the Minister's office. The decision was reversed, and funding was approved. We found no documentation in the files to support this change of decision.

3.29 It is clear from our discussions with a former Minister and the retired Executive Director that there were discussions from time to time between the Executive Director, the Minister, and the Minister's staff. The absence of documentation prevents us from determining the extent or the appropriateness of those discussions; the files did not indicate their results.

Sponsorship funds to Crown entities

Transactions designed to hide sources of funding to Crown entities

3.30 In the course of our audit, we noted that CCSB and subsequently Communication Canada had paid sponsorship funds to certain Crown corporations. We selected all such transactions that related to Business Development Bank of Canada, Canada Mortgage and Housing Corporation, Canadian Tourism Commission, Old Port of Montreal Corporation Inc., National Arts Centre Corporation, National Capital Commission, and VIA Rail Canada Inc. Our observations on Canada Mortgage and Housing Corporation and Canadian Tourism Commission are reported in Chapter 4 of this Report.

3.31 We also audited transactions involving Canada Lands Company Limited/ Parc Downsview Park Inc. and the Royal Canadian Mint. In these two Crown corporations and in the National Arts Centre and the National Capital Commission, we noted no significant observations to report to Parliament.

3.32 Through an order-in-council, we were able to audit selected sponsorship transactions at Canada Post Corporation. However, our Office did not audit the sponsorship/marketing program of Canada Post Corporation in its entirety. Given the nature of our findings in a small sample, we have suggested to Canada Post Corporation that it undertake an audit of its full sponsorship/marketing program and report the results of the audit to its Board of Directors.

3.33 In addition, we audited transfers of money by CCSB to other federal entities.

3.34 Partnership arrangements between government entities are not unusual in programs of mutual benefit. Normally an agreement states the roles and responsibilities of each entity, the limits of its financial commitment, and the benefits it expects to achieve. The required funds are usually transferred between entities through a journal voucher or paid directly by cheque.

3.35 Many of the transfers by CCSB to Crown entities were made through communications agencies, who were paid commissions to move the money. We believe that none of the agencies was selected properly, and in many cases there is little evidence of the value the Crown received.

3.36 Our audit found that CCSB had no agreements or partnership arrangements with the Crown corporations whose programs it sponsored. It used highly complicated and questionable methods to transfer sponsorship funds. Some payments were based on artificial invoices and contracts; others were subsidies—sponsorship money used by the Crown corporations to cover their normal operating costs.

3.37 CCSB made payments to Crown corporations through communications agencies with whom it had to contract, rather than transferring the funds to the corporations directly. If the Sponsorship Program had been framed under the transfer payments policy as a contribution, an approved program framework including specific eligibility criteria, terms and conditions, and a more structured approach to providing information to Parliament would have been required. We believe that it was inappropriate for such transfers to be undertaken through communications agencies or using procurement contracts.

3.38 The Treasury Board's Policy on Transfer Payments stipulates that "where a department is considering a grant, contribution, or other transfer payment to a Crown corporation . . . , there must be prior consultation with the Treasury Board Secretariat . . . to ensure that a grant, contribution or other transfer payment is not, and does not become, a substitute for financing a corporation's operating or capital requirements."

3.39 Irrespective of the transfer mechanism used, almost none of the Crown corporation transfers were supported by a business case. CCSB should have sought appropriate legislative authority and transferred the funds directly, by means of a contribution agreement. This would have eliminated the payment of significant commissions and would have required that CCSB obtain authority from the Treasury Board to make the transfers. Treasury Board Secretariat's officials stated that since the money was transferred using a contract, the transfer payments policy is not the applicable audit standard for the Sponsorship Program. However, in our view, the policy not only covers grants and contributions but also "other transfer payments." In our opinion, CCSB violated the intent of the transfer payments policy.

Questionable value for money

3.40 In exchange for receiving sponsorship funds, Crown corporations and departments were to provide visibility for the Government of Canada. In 1998, the Treasury Board's policy on the Federal Identity Program was amended to require Crown corporations (which previously had been exempted) to apply the Canada wordmark prominently on all their corporate identity applications. Given that requirement, we question why CCSB needed to pay Crown corporations for providing visibility, particularly in those cases where we found no documented evidence of any additional visibility purchased with sponsorship funds.

3.41 In several of the transactions we audited, we found that CCSB officials had contravened rules, regulations, and the *Financial Administration Act*. They also displayed a lack of concern for obtaining the best value for the Crown. The cases on pages 10–20 elaborate on these findings. They also illustrate that some officials of Crown entities participated in the mismanagement of public funds. Each case is presented with a diagram that shows the flow of money to explain the nature of the transaction.

Transactions with Crown entities are cause for concern

Sponsorship of television series

Around 1998, PWGSC's Communications Coordination Services Branch (CCSB) agreed verbally to sponsor several projects, including television series produced by L'Information essentielle Inc., a private production company in Quebec. We do not question the merits of these series, nor do we question any of the actions of L'Information essentielle.

A representative of L'Information essentielle told us the following:

- He had approached the Executive Director of CCSB about having the Government of Canada sponsor three different television series.
- The Executive Director agreed, and verbally committed the government to funding that included $7.5 million for a series on Maurice Richard, $1.2 million for Le Canada du Millénaire, and funding for a series called 'Innovation.'
- No business case was presented; the Government of Canada did not sign a contract with the company; and no other documentation or exchange of correspondence between the government and L'Information essentielle reflected these commitments.

Maurice Richard Series—1998 to 2000

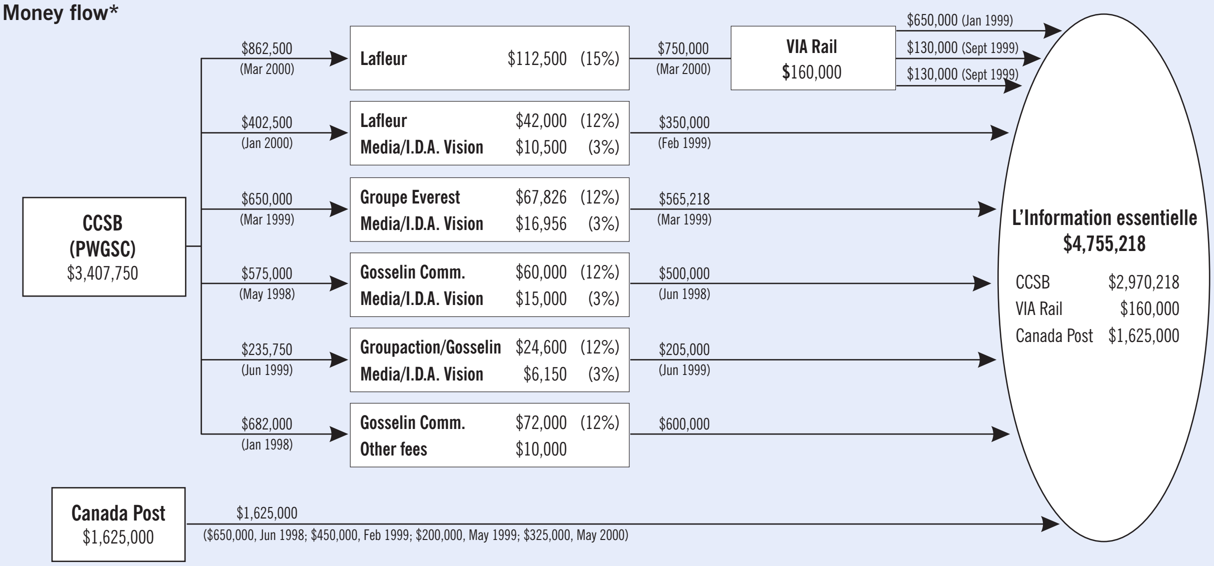
Funds advanced to a private sector company on the basis of verbal agreements

According to a representative of L'Information essentielle, he was told by CCSB's Executive Director that the company would receive $7.5 million in sponsorship funds, from a variety of sources for the Maurice Richard series. Subsequently, the Executive Director told L'Information essentielle to contact VIA Rail and Canada Post for portions of the funds; the rest would be transferred from CCSB to L'Information essentielle through a number of communications agencies.

VIA Rail. VIA told us that initially it had turned down the request by L'Information essentielle. Later in 1998, however, CCSB asked VIA to advance the money on the understanding that it would be reimbursed once PWGSC received supplementary funding from Parliament (it did not have money in its current appropriation). VIA Rail's President informed us that he had agreed to advance the money to L'Information essentielle based on a verbal agreement with the Executive Director of CCSB.

He added that in his opinion, if CCSB had been unable to reimburse VIA Rail, VIA would nevertheless have received full value for its expenditure in the form of valuable visibility on the television series. VIA Rail was unable to provide us with a business case or any other analysis prepared at the time to show how the decision was made or what results were expected.

Money flow*



*Figures do not include GST and PST (when applicable)

Transactions with Crown entities are cause for concern (continued)

On 7 December 1998, L'Information essentielle invoiced VIA Rail the sum of $650,000 plus taxes as production costs for the Maurice Richard series. On 31 August 1999, L'Information essentielle sent VIA two identical bills, each for $130,000 plus taxes. A representative of L'Information essentielle informed us that his company had invoiced VIA Rail on the instruction of CCSB's Executive Director. He further stated that the two invoices for identical amounts had been issued to VIA Rail on the same day because VIA had asked for two invoices.

VIA Rail paid L'Information essentielle for all three invoices, a total of $910,000 plus taxes, without a contract with L'Information essentielle. VIA Rail recorded the $910,000 as an accounts receivable from the Government of Canada (this was reflected in VIA's financial statements for 1999).

Later in 1999, the Executive Director of CCSB with whom VIA had a verbal agreement retired. The President of VIA Rail informed us that he had negotiated with CCSB's new Executive Director to recover the amount that VIA Rail had advanced. While VIA Rail's financial records show that the entire $910,000 had been recorded as a receivable, the President informed us that it was his understanding that only $750,000 would be recovered from CCSB.

In December 1999, CCSB entered into a contract with Lafleur Communication for $862,500 in production services, but the real purpose was to reimburse VIA Rail. The contract stated that the $862,500 was for work to be done between 23 December 1999 and 31 March 2000. The contract was worded in very general terms and was not clear on what Lafleur was to deliver. In February 2000 Lafleur invoiced CCSB for $750,000 plus $112,500 for the agency's commission of 15 percent—for delivering the cheque.

On 31 March 2000, VIA Rail invoiced Lafleur for $750,000 plus taxes for sponsorship funding and on the same day VIA received payment by cheque. The VIA invoice mentioned sponsorship but made no reference to the true substance of the transaction—repayment to VIA for part of the money it had advanced to L'Information essentielle on CCSB's behalf. VIA considered writing off the remaining $160,000 since it had been set up as an account receivable. However, after its management concluded that VIA had received good visibility from the series, the $160,000 was finally recorded as an advertising expense.

An internal review by PWGSC in 2002 revealed that when the contract was set up, CCSB staff knew the real purpose: to reimburse VIA Rail for the funds it had advanced to L'Information essentielle the year before for the Maurice Richard series. In our opinion, CCSB created a fictitious contract and made payments of $862,500 that contravened the *Financial Administration Act*.

In our opinion, given the highly unusual nature of these transactions such as

- the use of scarce VIA Rail funds to advance money to a private sector production company on CCSB's behalf without a contract or other legal obligation to do so, and
- the issuing of a fictitious invoice to a communications agency, Lafleur (which neither had a contract with VIA nor had rendered VIA any services) in order to recover a part of the funds in the full knowledge that any funds recovered would be coming from CCSB,

we would expect that as a minimum, VIA Rail's Board of Directors and especially its Audit Committee would have been informed of these transactions. This did not happen. VIA's management has informed us that the dollar amounts of these transactions did not require its Board's approval.

It appears that these transactions were part of an elaborate process used to obtain funds from current PWGSC appropriations, in order to pay for a highly irregular and questionable expenditure incurred by VIA Rail in the previous year and also to facilitate the payment of a commission to the communications agency. In our opinion, this resulted in the circumvention of the parliamentary appropriation process.

Canada Post. We are concerned about a lack of documentation to support payments made by Canada Post for the Maurice Richard series. Canada Post paid L'Information essentielle $1,625,000 (plus taxes) with no signed contract. There was no signed proposal or written business case to support the decision to spend $1,625,000. Canada Post informed us that it had received a proposal from L'Information essentielle listing costs and benefits, but we found that the proposal was neither signed by L'Information essentielle nor accepted in writing by Canada Post. Canada Post also informed us that it had done a cost-benefit analysis, but it provided us with no evidence of this.

Canada Post's sponsorship policy requires that it document the objectives and budget for sponsoring an event and the results it expects to achieve for its investment. Canada Post has agreed that written documentation to support its decision to be a main advertiser on the series would have been desirable. However, Canada Post informed us that it entered into this transaction in order to achieve marketing and not sponsorship objectives. Given that Canada Post was identified as a sponsor on the series and invoices indicate that it was sponsoring the production of the series, we believe that Canada Post should have followed its sponsorship policy and maintained appropriate documentation.

CCSB. Including the money it reimbursed to VIA Rail, CCSB paid L'Information essentielle in total $2.97 million in sponsorship funds through ten separate contracts with four different communications agencies and an agency of record. CCSB did not have a written contract with L'Information essentielle and we saw no evidence of any rationale for selecting this production firm. We saw no proposal from L'Information essentielle describing the objectives and the total cost of the series.

Transactions with Crown entities are cause for concern (continued)

A representative of L'Information essentielle informed us that no contract had been drawn up with CCSB or anyone else; CCSB's Executive Director had never asked for one. The representative also stated that the four communications agencies neither had any contracts with L'Information essentielle nor did any work for it.

We saw no documents supporting CCSB's decision to spend $2.97 million on sponsorship for the Maurice Richard television series and no business case indicating the government's total contribution to the production cost and the results the expenditure was expected to achieve. The four agencies and the agency of record received commissions totalling about $438,000 for simply transferring the money to L'Information essentielle.

Most of the cost of the series was paid by CCSB, and although Canada Post and VIA Rail had several commercial spots throughout the four-hour program, the federal government received visibility only through the appearance of the Canada wordmark in the opening and closing credits. We do not question the artistic merits of the series, nor have we analyzed the value of the visibility it provided to the government. Our concern here is about the large commitments of taxpayers' money made without documented objectives, analyses, and contracts, and with no evaluation of the results by CCSB.

It appears that these transactions were in essence designed to transfer money from CCSB to L'Information essentielle. We found no exchange of correspondence or other documentation between these two organizations. We are concerned about the method used to transfer the funds, which went from CCSB to L'Information essentielle through intermediary organizations. None of the contracts between CCSB and the communications agencies mentioned that the agencies were to transfer the money to L'Information essentielle. The design of these transactions hid the source of the funding and the true substance of the transactions. The parliamentary appropriations process was not respected.

Le Canada du Millénaire Series—1998 to 2000

Unusual methods of funding Millénaire series

From 1998 to 2000, the government paid about $1.7 million to L'Information essentielle through various funding mechanisms to sponsor *Le Canada du Millénaire*, a series with a total budget of $2.5 million. CCSB had no written contract with L'Information essentielle.

CCSB used a complex series of funding mechanisms to move the money to L'Information essentielle through communications agencies, Business Development Bank of Canada (a Crown corporation), and private entities. The true nature of the transaction was hidden by the structure of the transfers, which are set out below:

- In 1998, Business Development Bank of Canada (BDC) made two payments totalling $250,000 directly to L'Information essentielle, without a written contract.
- In July 1998, CCSB gave a total of $143,750 to two agencies, who paid $125,000 directly to L'Information essentielle and retained the rest as a commission for making the transfer.
- In June 1999, CCSB gave the same two agencies another $143,750; in March 2000 the agencies transferred $125,000 to BDC, and on 31 March 2000 BDC issued a cheque for $125,000 to L'Information essentielle.
- The Canada Information Office (CIO) gave $1.2 million to BCE Media, who then gave $1.2 million plus its own contribution to L'Information essentielle for the Millénaire series.

We saw no business case showing what visibility the government was to receive from the series and no analysis of what it did receive. We did not see a post-mortem report in the files. Commissions totalling $37,500 (15 percent) were paid to the two communications agencies for simply transferring money, with little indication that they had added value. We saw no analysis or rationale to explain why CCSB chose to pay L'Information essentielle through a Crown corporation or through a communications agency.

BDC, the Crown corporation, was used to facilitate the transfer of $125,000. In January 2000, Lafleur Communication Marketing instructed BDC to invoice Media/I.D.A Vision, CCSB's agency of record, for $125,000. BDC received that amount from Media/I.D.A Vision and then issued a cheque to L'Information essentielle for $125,000. BDC officials told us this flow-through transaction was processed on one-time "accommodation" basis on the last day of the CCSB fiscal year given that no BDC funds were involved, and that they had been informed at that time that an administrative error had been made by Media/I.D.A Vision. The BDC officers approving the payment appear to have gone beyond the financial authorities delegated to them. As noted later, in our opinion BDC should review and clarify its delegation policies.

Transactions with Crown entities are cause for concern (continued)

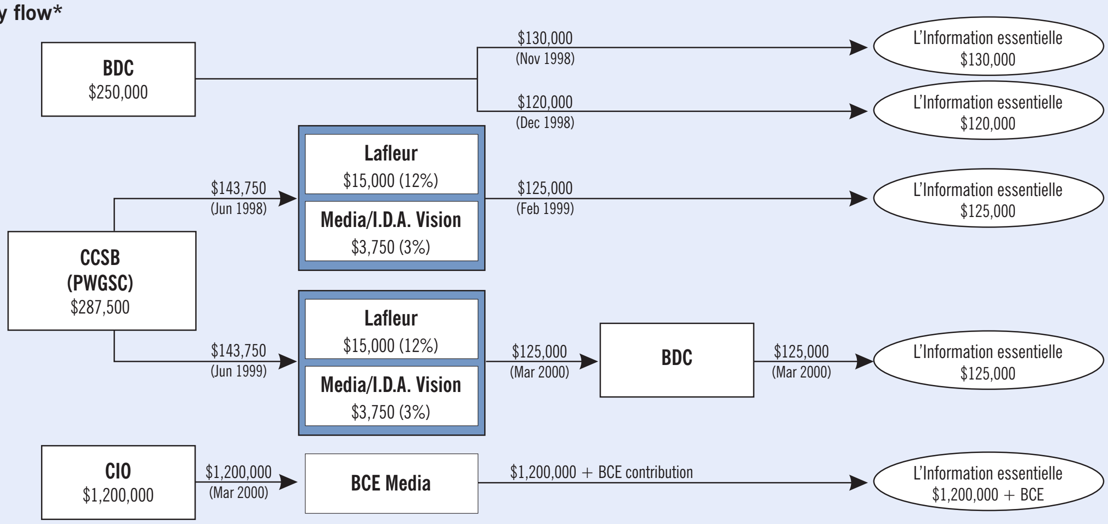
BDC informed us that it had transferred the funds from Media/I.D.A Vision to L'Information essentielle on instructions given in error by Lafleur and that the funds should have been transferred directly by Media/I.D.A Vision to L'Information essentielle. However, BDC complied with these instructions by issuing invoices to Media/I.D.A Vision and in turn paid L'Information essentielle with the money it received. The individuals who prepared those invoices are no longer with BDC and its current management could not explain the reasons for the issuance of invoices and the transfer of funds.

However, in CCSB's files we found that in April 1999, nine months before Lafleur's instructions to BDC, CCSB had entered into contracts with Lafleur and Media/I.D.A Vision for $125,000 to sponsor the special event/activity "Millénaire BDC." CCSB paid Media/I.D.A. Vision $100,000 in June 1999 and $25,000 in February 2000; Media/I.D.A Vision's transfer of $125,000 to BDC was made in March 2000. It would appear that BDC's participation in the transfer of $125,000 to L'Information essentielle on 31 March 2000 was not made in error, given that CCSB had contracts and money already in place for the transfer to BDC. We observed that BDC had written to CCSB as early as May 1998 with the L'Information essentielle proposal for *Le Canada du Millénaire* series.

While we have not received an adequate explanation for BDC's participation in these specific transfers, the files do explain its participation in the sponsorship of the series. BDC expected to receive visibility valued at $500,000, half of which it paid; the remaining half was provided by CCSB. In effect, CCSB subsidized the operations of this Crown corporation. CCSB should have asked the Treasury Board for authority to transfer funds to BDC. By not doing so, CCSB violated the intent of the Treasury Board's transfer payment policy.

BDC had no contract or other written agreement with Media/I.D.A Vision, Lafleur Communication Marketing, or L'Information essentielle, and it is most unusual that BDC would receive program funding from a government department. Following changes in BDC's management, we have noted several improvements in its sponsorship activities, as the following discussion of the television series "Innovation" demonstrates.

Money flow*



*Figures do not include GST and PST (when applicable)

Transactions with Crown entities are cause for concern (continued)

Innovation Series—1999 to 2004

Some concerns and some improvements

In this case, according to a representative from L'Information essentielle, CCSB's Executive Director verbally committed the government to providing funds for several television series, including one on innovation. When the Executive Director retired in 1999, his successor at CCSB declined to sponsor the series. Following a discussion between L'Information essentielle and staff in the Minister's office, the government agreed to sponsor the series. We did not see any business case specifying what the government would receive or any analyses to support this decision.

Télémission Information Inc., a company related to L'Information essentielle, approached the Business Development Bank of Canada (BDC) and also requested funding for the series. The process by which this project was approved is unclear. BDC went to Communication Canada (which by then had replaced CCSB) in September 2001 to ask for $700,000 annually for three years. BDC itself would contribute $75,000 annually. In October Communication Canada agreed to give BDC $700,000 annually to help finance the Innovation series. We question the involvement of a Crown corporation in routing funds from a department to a private sector company, Télémission Information Inc., when the department (Communication Canada) is contributing 90 percent of the funds. We saw no evidence that the Treasury Board was informed about the transfer of departmental funds to a Crown corporation for this series.

In October 2001, the new management at BDC began contract negotiations with Télémission Information Inc. and signed a $2.325 million, three-year contract in February 2002. Concurrently, BDC signed an agreement with Communication Canada for $2.1 million which BDC would receive; it would also contribute $225,000 of its own funds.

BDC explained that because the subject matter of the series—innovation—was a core element of BDC's Corporate Plan, it agreed to manage the project on behalf of Communication Canada and to ensure that the series addressed the theme of innovation, a government priority. Communication Canada would provide a link with 15 federal departments who would contribute $10,000 each.

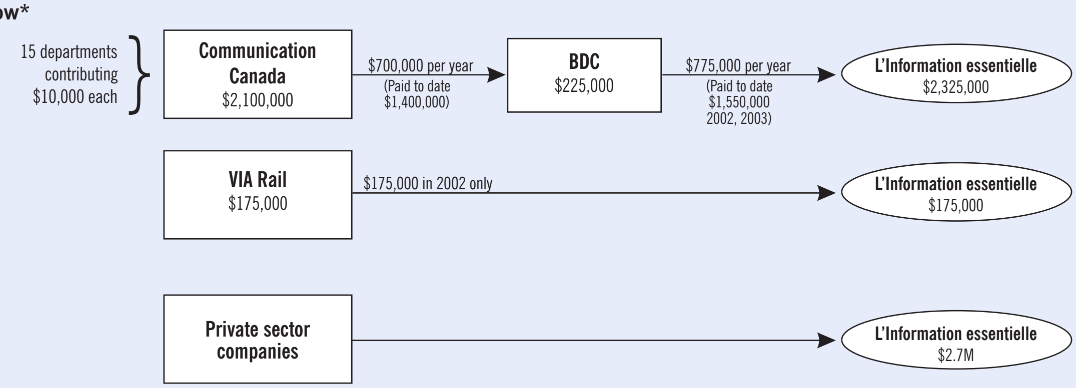
We do not understand why Communication Canada, as the main contributor to the series, does not have a contract with Télémission Information. We are concerned that without a contract, it has no way of ensuring that Télémission Information delivers the benefits expected for the government; Communication Canada is relying on BDC to carry out this responsibility on its behalf.

In a separate agreement with L'Information essentielle, VIA Rail agreed to contribute to the Innovation series and paid $175,000 for one year, in exchange for four 15-second commercial spots on 104 episodes.

BDC reissued cheques that it received from Communication Canada ($700,000) to L'Information essentielle rather than to Télémission Information. The BDC officers approving the payment appear to have gone beyond the financial authorities delegated to them.

BDC officials again told us that this transaction was exceptional and was not contemplated by its policy on delegation of authority. BDC decided that the delegation limits did not apply because in its view CCSB was paying $700,000 and their own costs were only $75,000. We recommend that the Bank's policy on Delegation of Authority be clarified on that issue so that the aggregate amount of any future such payments would be taken into account.

Money flow*



*Figures do not include GST and PST (when applicable)

Transactions with Crown entities are cause for concern (continued)

Some significant improvements. Unlike the Maurice Richard and Millénaire series, for the Innovation series there is a contract between BDC and Télémission Information Inc. that defines deliverables, a timeline, and terms of payment. There is also a formal agreement between BDC and Communication Canada that describes their respective roles and responsibilities and the deliverables and costs of the project. No communications agencies were used in the transfer of funds and therefore no commission fees were paid.

As the project manager, BDC is taking steps to ensure that it receives from Télémission Information/L'Information essentielle what it has paid for by monitoring progress against deadlines, ensuring that deliverables are in accordance with the terms of the contract, and withholding payments when terms have not been met. Overall, we found adequate documentation and transparency. BDC is keeping Communication Canada informed about the status of the project.

Inappropriate transfer of sponsorship funds for a Crown corporation's capital asset

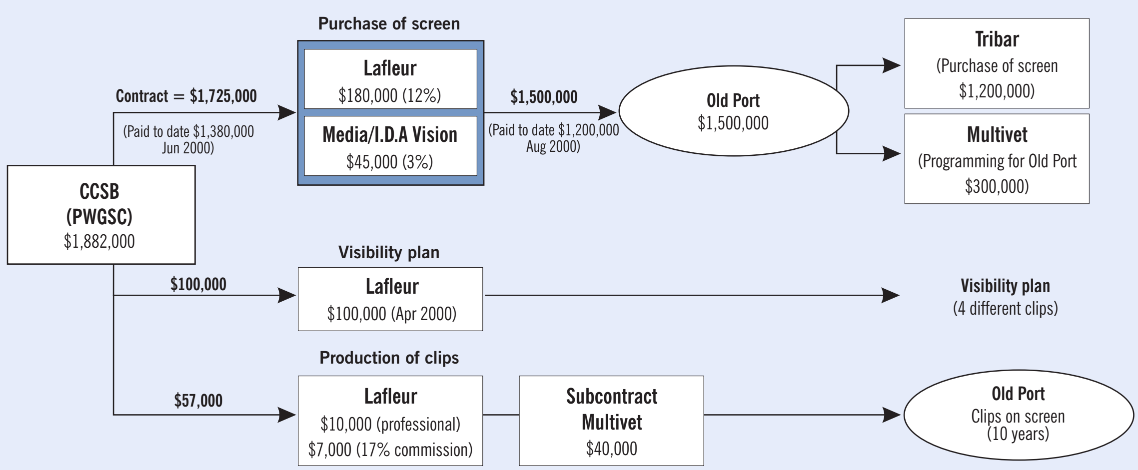
Old Port of Montreal—Sponsorship Screen, Visibility Plan, and Production—2000–01

As part of its operations, Old Port of Montreal wanted to purchase a giant screen for its Science Centre but lacked sufficient funds. We were informed that initially Old Port had approached CCSB to obtain funding for the giant screen. However, CCSB did not provide it with any funds. Following a presentation by Old Port to the Minister of Public Works and Government Services Canada, CCSB offered verbally to provide $1.5 million in sponsorship funds in return for federal visibility.

Rather than make a direct payment, CCSB contracted with Lafleur Communication Marketing and Media/I.D.A Vision (CCSB's agency of record) to transfer $1.5 million to Old Port. The files contain nothing to support the selection of these agencies. CCSB paid the agencies $225,000 for facilitating the transfer. The files did not show what, if any, value the Crown received for the $225,000.

Although Old Port had not signed a contract with the agencies or with CCSB, it was informed by Lafleur that it would receive $1.5 million in April 2000. Old Port decided, with no involvement from Media/I.D.A Vision or Lafleur, to launch a process for issuing a $1.5 million contract to acquire a giant screen and related programming services. In August 2000—after it had issued the purchase order to the supplier—Old Port received $1.2 million as the first payment from Media IDA Vision. At the time of our audit, Old Port had not received the remaining $300,000 it had been promised.

Money flow*



*Figures do not include GST and PST (when applicable)

Transactions with Crown entities are cause for concern (continued)

CCSB awarded additional contracts to Lafleur to create visibility for the government on the giant screen—for example, $100,000 to develop a visibility plan and $57,000 to produce video clips, $40,000 of which work was subcontracted out. In total, CCSB paid Lafleur $297,000 in various fees to transfer money, to produce a visibility plan, and to subcontract production work. We found nothing in the file to show specifically what CCSB expected to receive from Lafleur or what it did receive.

In large part, the substance of the transaction was a transfer of funds from CCSB to Old Port of Montreal to buy a capital asset for Old Port. CCSB should have asked the Treasury Board for the authority to transfer funds to Old Port. By not doing so, CCSB violated the intent of the Treasury Board's transfer payments policy, which was designed to ensure that a grant or contribution is not used as a substitute for financing a Crown corporation's operating or capital requirements. The Treasury Board Secretariat was not consulted or given a business case to support this purchase.

In our opinion, CCSB did not have the authority to transfer money from PWGSC's appropriation to support the operations of a Crown corporation. It spent nearly a quarter of a million dollars on commission fees to two agencies for transfering money between two government entities. CCSB paid fees to the same agency for the transfer, for production, and for subcontracting work, with no supporting business case and no written agreement with Old Port of Montreal.

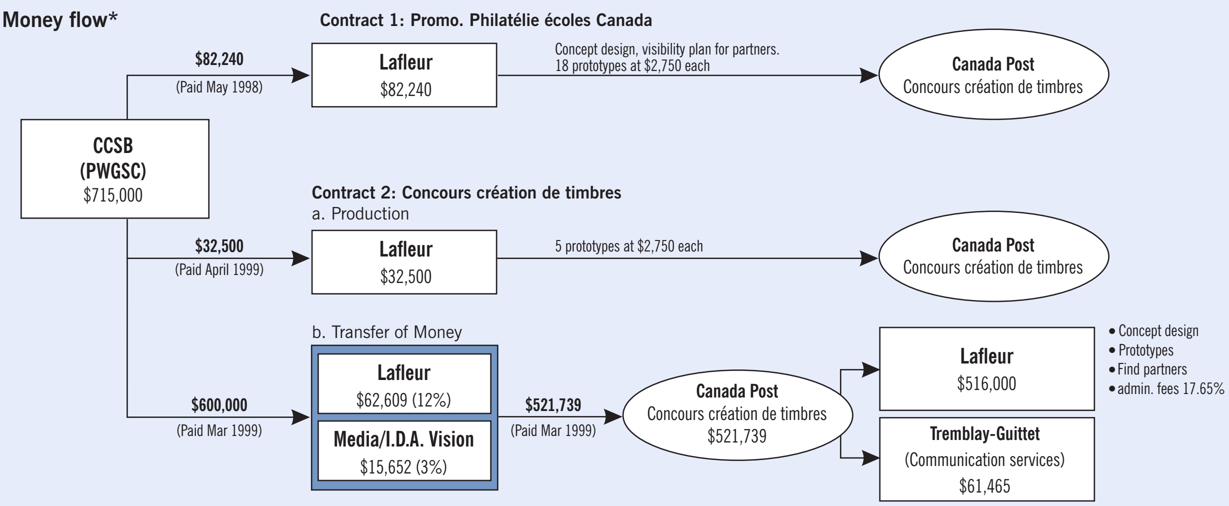
Sponsorship funds used to support commercial operations of a Crown corporation

Canada Post—Sponsorship
Concours création de timbres—1998–99

In early 1998, Canada Post Corporation (CPC) decided to participate with the U.S. Postal Service in a stamp competition with over 30 other countries. We did not see any documentation to support Canada Post's decision. For example, there was no business case that documented the project's objectives and budget or the expected results that would be a benchmark against which the success of the event could be measured. Canada Post hired Lafleur to manage this project, including finding partners. One of the partners solicited by Lafleur and the only financial contributor to the stamp competition was CCSB.

With no written agreement between them, CCSB paid Canada Post $521,739 through Lafleur and Media/I.D.A Vision, with whom CCSB had contracts. The two agencies received $78,261 (15 percent) in commission fees simply for transferring the money. We do not understand why CCSB did not pay Canada Post directly and avoid paying the commissions. CCSB's contract with Lafleur provided no indication of the extent of visibility the government expected to receive for the $521,739.

Money flow*



*Figures do not include GST and PST (when applicable)

Transactions with Crown entities are cause for concern (continued)

In return for receiving the funds, Canada Post provided visibility for the Government of Canada. We question the value of this sponsorship, since Canada Post was already required to display the Canada wordmark on all its corporate identity applications, under the Treasury Board's Policy on Federal Identity Program (FIP). CPC has informed us that while they have not quantified and documented the extent of additional visibility received by the government, in their opinion the presence of ministers at various functions and the prominent display of the Canada wordmark did provide additional visibility.

Canada Post's sponsorship policy requires that it document the objectives and the budget for sponsoring an event and the results it expects to achieve for its investment. Canada Post did not follow its sponsorship policy. It acknowledges that additional documentation would have been desirable but informed us that it disagrees with our conclusion. In its view, the stamp contest was not a sponsorship transaction but rather a marketing activity, a strictly commercial operation.

We note that the $521,739 came from the government's Sponsorship Program. In our opinion, sponsorship funds were used to support Canada Post's commercial operations and violated the intent of the Treasury Board's transfer payment policy, which stipulates that a grant, contribution, or other transfer payment should not be a substitute for financing a Crown corporation's operating requirements.

We observed that of the $521,739 it received from CCSB, Canada Post paid Lafleur $516,000. However, Canada Post did not have a contract with Lafleur. Canada Post's own contracting policy requires competitive tendering for acquiring goods and services. Canada Post officials informed us that they had awarded the contract to Lafleur on a sole-source basis because of the quality of services Lafleur had provided in the past. However, we found no documentation on file containing any analysis or other rationale to support this decision.

One of Lafleur's invoices, paid by Canada Post, shows a commission to the agency of 17.65 percent, which CPC informs us was for finding partners and for ad placement fees. In normal circumstances, a contract would specify both the work to be performed and the fee structure. In the absence of a contract, we cannot determine on what basis charging the commission can be justified. We are concerned about the various fees paid to Lafleur by CCSB and Canada Post to transfer money that was destined for Lafleur in any case.

We found that both Canada Post and CCSB purchased similar goods from Lafleur (concept design and production of prototypes, or maquettes). Canada Post told us it had not been aware that CCSB too had engaged Lafleur to produce the goods, and Canada Post did not receive any goods for the event from Lafleur on the government's behalf. We informed Canada Post and PWGSC and asked them to confirm with Lafleur that double payments were not made.

Overall, we found that neither Canada Post nor CCSB had a business case to support their involvement in this stamp competition. The communications agencies were selected by CPC without competition. There is no evidence of any post-event analysis of what CCSB received for the money it spent. We do not understand why CCSB paid for a Canada Post event that should have been considered part of Canada Post's normal operations, especially when Canada Post paid Lafleur most of the funds that it had received through Lafleur in the first place.

Questionable sponsorship funding for VIA Magazine

VIA Magazine—Sponsorship 1997 to 2000

In 1997, Lafleur Communication and Marketing made a proposal to VIA Rail to produce the VIA magazine at an estimated yearly cost of $1.8 million. A total of 45,000 copies would be distributed including 30,000 on trains. CCSB and VIA entered into separate agreements with Lafleur, each stating that it would pay $500,000 annually. Lafleur would seek funding for the remaining $800,000 by selling space in the magazine to other advertisers. From 1997 to 2000, CCSB had five separate contracts with Lafleur, and the funding was provided by the Sponsorship Program. There was no written agreement between CCSB and VIA Rail.

During 1997 to 2000, VIA Rail and CCSB paid Lafleur a total of $3,564,500—about $1,574,000 from VIA and $1,990,500 from CCSB. There was no competitive process to solicit other potential suppliers of the services Lafleur was to provide, although two other companies indicated a willingness to produce the magazine.

Lafleur subcontracted all of the publishing to its subsidiary, Satellite Publishing Inc. In 2002, an internal review by PWGSC found that one individual, who was the President of Lafleur Communications Marketing, the President and Publisher of VIA Magazine, and the President and Editor of Satellite Publishing/Les Éditions Satellite Inc. had been responsible for getting the sponsorship funding, creating and managing the publishing vehicle (VIA Magazine), and printing the magazine. Although the Crown paid

Transactions with Crown entities are cause for concern (continued)

two thirds of the cost of the magazine, Lafleur retained the magazine's ownership.

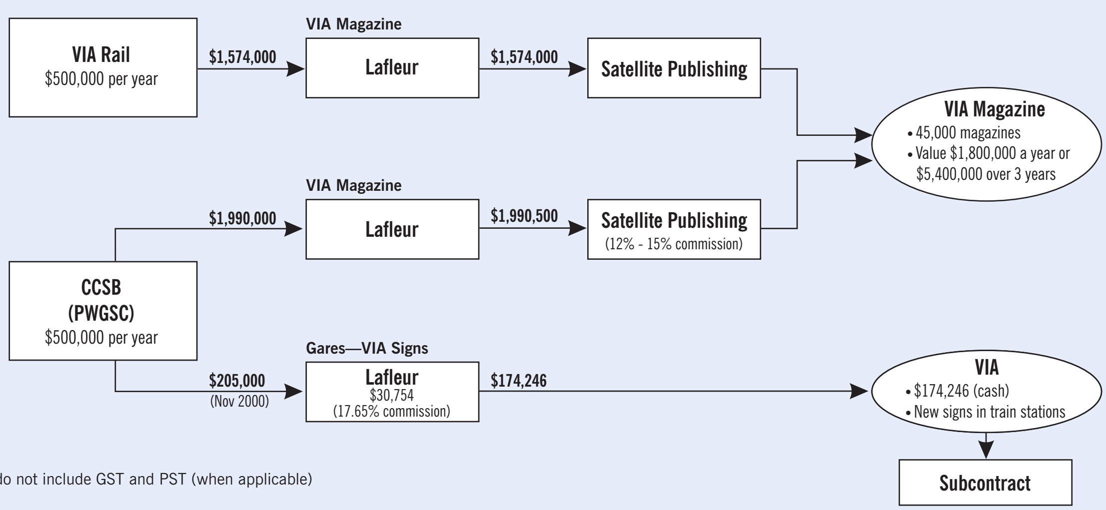
There was no evidence that any subcontracting of work followed a competitive process, as required by CCSB's sponsorship contract with Lafleur. Occasionally, CCSB paid Lafleur invoices that showed commission fees of 12 percent to 15 percent charged for subcontracting work to a related company. CCSB did not question the relationship between Lafleur and the subcontractor to determine if the commissions charged were in compliance with the contract terms. We elaborate on this issue in paragraphs 3.76 and 3.77.

In 1997, VIA had a two year agreement or Letter of Intent with Lafleur to share 50 percent of annual profits and losses up to a maximum of $100,000 and VIA would receive or pay $50,000 per year, This agreement was not amended although the magazine continued to 2000. We saw no evidence that VIA received financial reports from Lafleur until the final year, 2000. During the three and a half years, Lafleur declared no losses and VIA received no profits except in the final year, when VIA received $50,000 from Satellite Publishing. VIA informed us that the Vice-president of Marketing responsible for this file reviewed the annual budget, actual results and reconciliation to ensure that VIA's interests were well protected. While VIA Rail provided some documentation of costs for the year 2000, we are concerned that we had not seen adequate documentation to demonstrate that there was adequate monitoring in prior years.

In September 2000, just before the magazine was to be cancelled, VIA asked CCSB to transfer the remaining $205,000 that CCSB would have contributed to the magazine, for an upgrade of signs at train stations across Canada. CCSB transferred the $174,246 to VIA through Lafleur, which retained $30,754 or 17.65 percent as a commission for simply facilitating the transfer. We saw no documented rationale for CCSB's use of sponsorship money to subsidize operations that would normally be VIA's operating cost. Here, again, CCSB should have asked the Treasury Board for authority to transfer funds to VIA. By not doing so, CCSB violated the intent of the TB's Transfer Payments policy. In our opinion, this resulted in the circumvention of the appropriation process.

Overall, we are especially concerned about what appears to be unnecessary commissions paid for transferring money from one Crown entity to another. The annual payment of $500,000 by VIA was approved by VIA's Board of Directors after reviewing the corporation's plan. In CCSB's files, we found no analysis or justification for this transaction. Lafleur and its subsidiary were not selected by a competitive process, and payments of commission to its subsidiary for printing were made without any challenge by CCSB. The relationship between the parent company and its subsidiary was not properly disclosed as required by the contract. Finally, CCSB's sponsorship funds were used to upgrade VIA's signs, in our opinion violating the transfer payments policy and circumventing the appropriation process.

Money flow*



*Figures do not include GST and PST (when applicable)

Transactions with Crown entities are cause for concern (continued)

Sponsorship Program money to subsidize RCMP operating expenditures

RCMP's 125th Anniversary Celebration—Sponsorship 1997 to 1999

In 1997, CCSB decided to contribute to the Royal Canadian Mounted Police's 125th anniversary celebration. Up to 1999, CCSB contributed more than $3 million from the Sponsorship Program through eight separate contracts with two communications agencies and an agency of record. The RCMP received $1,704,000 of that amount through Gosselin, Lafleur, and Media/I.D.A Vision. These agencies retained a total of $244,380 in commission fees for transferring funds from CCSB to the RCMP. The balance, $1,081,910, went to Lafleur and Gosselin to pay for production work related to the RCMP 125th anniversary event.

Of the $1,704,000 in sponsorship funds received by the RCMP, we found only one agreement signed in 1998 between the RCMP and Gosselin Communications (representing the Government of Canada) for $800,000. In return for this money, the RCMP was to provide visibility opportunities that would profile the Government of Canada, including the placement of the Canada wordmark in the RCMP's 125th anniversary activities. We question the added value to the government of this sponsorship, given that the RCMP was already required to display the Canada wordmark under the Treasury Board's Policy on the Federal Identity Program (FIP). We found no documented evidence of any additional visibility received in return for the sponsorship money.

Before our audit, the RCMP had completed an internal audit of this sponsorship event. Its audit had concluded with reasonable assurance that the RCMP had received CCSB sponsorship funds through Lafleur and Gosselin. However, given that not all of the information needed to complete the audit was available, the auditors could not provide reasonable assurance that expenses had complied with applicable sponsorship agreements, policies, procedures, and regulations (including the *Financial Administration Act*, the Treasury Board's contracting policy, and the Policy on Delegation of Authorities). Nor could the auditors provide reasonable assurance that sponsorship funds and related expenses had been recorded properly and accurately for financial reporting purposes.

Subsequently, as the internal audit had recommended, the RCMP started an administrative review of the sponsorship of its 125th anniversary celebrations.

Our audit revealed a number of anomalies:

- A separate non-government bank account was used for all deposits and payments to the RCMP's Quebec Division; this was a contravention of the *Financial Administration Act*. The internal audit report mentioned that the Receiver General account was not used and approval was not obtained for a departmental bank account—a requirement under Treasury Board policy. In addition, all transactions for Quebec Division were recorded in a manual accounting system rather than in the RCMP's corporate accounting system. We were unable to verify the transactions from the Quebec bank account because some of the supporting documents had been destroyed.
- CCSB paid Lafleur almost $200,000 for production work that was subcontracted to a company related to Lafleur (Publicité Dézert). We did not

Reconciliation of total dollars for the RCMP 125th Anniversary

RCMP received in cash ($530,000 + $1,174,000)		$1,704,000
Commissions paid to agencies to transfer funds		
Gosselin	$140,880	
Lafleur	64,500	
Media/I.D.A. Vision	39,000	244,380
Production of goods and services to RCMP		
Lafleur	$967,750	
Gosselin	114,160	1,081,910
Total paid by CCSB		**$3,030,290**

Transactions with Crown entities are cause for concern (continued)

see evidence of a competitive process for subcontracting, which the contract required. We found cases where CCSB paid Lafleur for invoices showing 12 percent to 15 percent in commission fees charged for subcontracting work to Publicité Dézert. CCSB did not question the relationship between the two companies to determine if the commissions were in compliance with the contract terms. We elaborate on this issue in paragraphs 3.76 and 3.77.

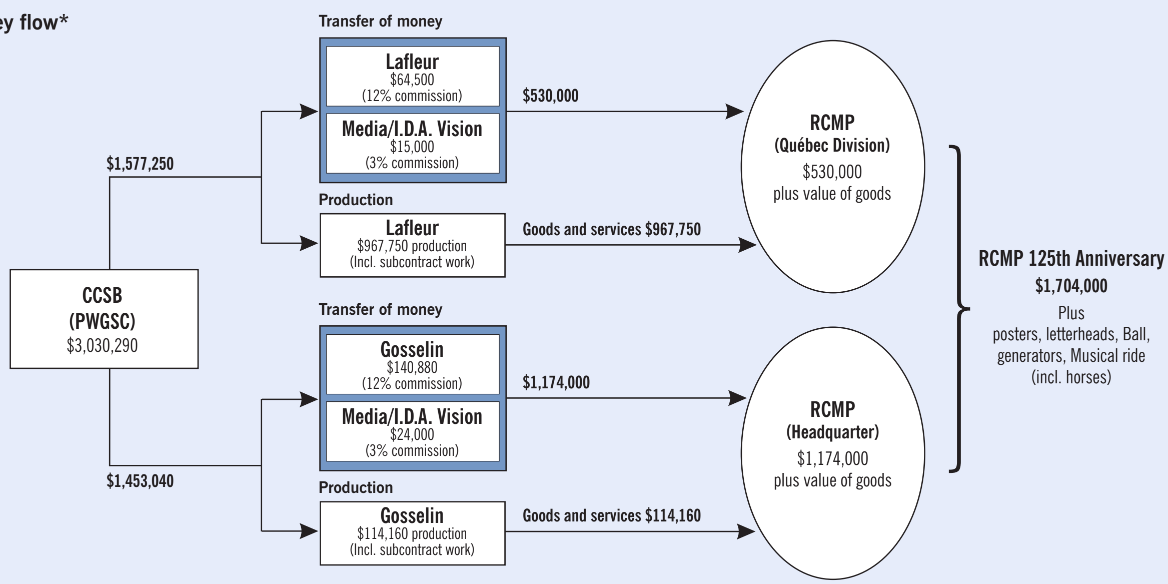
- The RCMP spent $65,000 of the CCSB sponsorship funds that it received through Media/I.D.A Vision and Lafleur to purchase goods from Lafleur. Lafleur subcontracted most of this work to Publicité Dézert and again charged a commission. No written contract was issued between the RCMP and Lafleur. According to the RCMP's internal audit report, these expenses were not processed according to the contracting policies of the RCMP and the Treasury Board.
- We found that both the RCMP and CCSB purchased similar goods from Lafleur. We informed the RCMP and PWGSC of this matter and asked them to confirm with their supplier that double payments were not made.
- The RCMP used some of the sponsorship funds it received for its own operations. We find this an inappropriate use of sponsorship money. For example, it spent more than $150,000 to hire two co-ordinators for the 125th anniversary celebrations; six horses and two trailers were purchased for $107,268; and an $82,436 surplus of sponsorship money in the Quebec Division was used as a credit against departmental expenditures.
- There was little documentation in the CCSB's files to support the Sponsorship Program's funding of the RCMP 125th anniversary event. There were no business plans, no visibility plans, and no post mortem report accounting for the value of additional visibility the government received for the majority of the $3 million spent.

In response to our findings, the RCMP has informed us that

- it agrees with the facts presented in this case;
- it agrees that the *Financial Administration Act* was contravened but says the RCMP's own administrative review concluded that this was due to a lack of understanding by local managers and not malicious intent;
- although it acknowledges that the agencies received commissions on funds transferred to the RCMP, the RCMP did not knowingly pay any commissions directly to the communication agencies; and
- it takes our findings seriously and has taken and continues to take corrective action.

In our view, most of the expenses were for the RCMP's 125th anniversary celebrations, costs that the RCMP should have been expected to cover from its own appropriations or by seeking supplementary appropriations if necessary. In this case, it appears that appropriations provided by Parliament to PWGSC were used to subsidize the RCMP's operating expenditures. We do not believe that Parliament appropriated funds to PWGSC with the intent that they be used to purchase horses for the RCMP. Given that they were, however, we can see no reason why CCSB did not transfer the funds directly to the RCMP and save $244,380 in commissions.

Money flow*



*Figures do not include GST and PST (when applicable)

The transactions with Crown entities are cause for concern

3.42 Our work indicates that the Sponsorship Program was used mainly for community, cultural, and sports events. However, as the case studies show, it was also used for funding certain other events, television series, commercial activities, and capital acquisitions by Crown entities, including Crown corporations.

3.43 Communications agencies were paid significant commissions by CCSB to simply deliver cheques to the corporations. Many of the transactions we examined had violated one or more of the Government Contracts Regulations, the *Financial Administration Act*, financial and contracting policies of Crown corporations, and the intent of the Treasury Board's Policy on Transfer Payments.

3.44 What is particularly disturbing about these sponsorship payments is that each involved a number of transactions with a number of companies, sometimes using false invoices and contracts or no written contracts at all. These arrangements appear designed to provide commissions to communications agencies, while hiding the source of funds and the true nature of the transactions. The parliamentary appropriation process was not respected. Senior public servants in CCSB and some officials of the Crown corporations were knowing and willing participants in these arrangements. The former Minister of Public Works and Government Services told us he was aware that CCSB's Executive Director had entered into transactions with the Crown corporations; the Executive Director had informed him that moving money between entities in this way was appropriate.

Mismanagement of sponsorships

3.45 Our audit work in Crown corporations covered only a part of the Sponsorship Program. The majority of transactions under the program involved the payment of funds by the Government of Canada to support organizations that were staging sports and cultural events. This section discusses the management of the program by CCSB up to 31 August 2001, when Communication Canada assumed the responsibility for the program.

Widespread failure to comply with contracting policies and regulations

3.46 Starting in April 2000, PWGSC conducted one audit and several reviews of sponsorship files, in each case uncovering serious problems. Our findings were consistent with those of PWGSC.

3.47 Those who managed the Sponsorship Program were responsible for

- complying with the *Financial Administration Act*,
- exercising due diligence in selecting events for sponsorship and determining the level of financial support to each,
- ensuring that the process of selecting and awarding contracts to communications agencies complied with the government's policies and regulations on contracting,

- enforcing the terms and conditions of the contracts, and
- ensuring that the government received the best possible value for the public funds it spent.

3.48 We observed that from 1997 to 31 August 2001, there was a widespread failure to comply with the government's contracting policies and regulations, a pervasive lack of documentation in the files, and little evidence in many cases that the government had received value for its sponsorship—in some cases, no evidence.

Selection of communications agencies broke the rules

3.49 Section 5 of the Government Contracts Regulations requires the contracting authority to solicit bids before entering into any contract; competitive bidding should therefore be the norm.

3.50 The Sponsorship Program used communications agencies from three pre-established lists of qualified suppliers identified in three separate selection processes (for details see section Selection of agencies in Chapter 4).

3.51 In the first process, five firms were selected in early 1995 to provide advertising services to the Advertising and Public Opinion Research Sector (APORS) of PWGSC. However, the selection process did not comply with the Government Contracts Regulations. We saw no evidence that the specific requirements of the work were ever advertised or documented. The selected firms had been identified earlier in a selection process for other work in another department. Other potential suppliers were never given a chance to compete for this work.

3.52 In the second selection process, carried out in 1995, a consortium was selected to provide a complete range of advertising services. In the third process, in 1997, 10 companies were selected to develop and administer national or regional marketing campaigns to supplement advertising initiatives. Many of these companies were later awarded contracts to manage sponsorship events.

3.53 In each of the latter two selection processes, the government posted a letter of interest on MERX, its electronic bidding system, to inform suppliers about its needs and allow them to apply as potential suppliers. In each case, the letter of interest did not specify in what period the services were needed, which of the stated requirements were mandatory and which would be rated, and how the suppliers would be selected or the pass mark (score) they had to obtain. All of this information was required under CCSB's own procedures.

3.54 In our opinion, none of the companies on the three lists of qualified suppliers was selected through the competitive process that the government's contracting policies and regulations require.

Selection of the agency of record contravened contracting rules

3.55 In March 1998, the government contracted with a firm to be its agency of record and provide financial management services for sponsorships. Again, the letter of interest was posted for less than the 30 days required by the

Contracting Policy, Appendix Q. It did not say when the services would be required, what the mandatory and the rated requirements were, and how suppliers would be selected or the score they would need to be considered in the next stage of the selection process.

3.56 The company chosen was given a contract for the next five years to act as sole purchaser of all media placements that the government needed to support its advertising activities. The advertising aspects of this contract are addressed in Chapter 4 of this Report.

Contracts awarded for specific events without following contracting policies

3.57 Appendix Q of the government's contracting policy states that if the contracting authority creates a list of qualified suppliers of a type of service, then each time it wants to award a contract for that type of service it must invite all suppliers on the list to submit a proposal. The contracting authority must also post an annual notice that the list of qualified suppliers exists, and it must give other suppliers an opportunity to qualify for inclusion on the list. We saw no evidence that CCSB or PWGSC ever posted an annual notice of the list of qualified suppliers or gave other potential suppliers an opportunity to qualify.

3.58 Furthermore, in the contracts we audited, we found that CCSB had never invited proposals from the suppliers who did get on the list. Nor did the files show on what basis each contract was awarded and why one agency and not another was chosen for a given project.

Lack of due diligence in selecting and approving events to sponsor

3.59 We expected that in recommending an event for sponsorship, program staff would indicate how the event would contribute to achieving the program's objectives. We expected to find analyses showing that program managers had assessed proposed events for their potential to provide federal visibility and presence and that they had recommended sponsorship funding at a corresponding level.

3.60 Most of the 53 files in our audit sample contained no assessment of the project's merits or even any criteria for assessing merit. No file contained the rationale supporting the decision to sponsor the event. Furthermore, in 64 percent of the files we reviewed, there was no information about the event organizers, no description of the project, and no discussion of the visibility the Government of Canada would achieve by sponsoring the event.

3.61 We found a list of events that CCSB had declined to sponsor, but its officials informed us that no files had been maintained on declined projects so we could not determine why the requests for sponsorship funds had been declined. We noted seven projects that had been declined initially and were later approved—but the files contained no reasons for the changed decisions. In one case a soccer team, Impact de Montréal, received $150,000 in sponsorship funds for its indoor season in 1998–99. The following year, an almost identical proposal from the Edmonton Drillers Soccer Club was declined on the grounds that no funds were available. After the Minister of

Public Works and Government Services was contacted by a member of Parliament and by the Edmonton Drillers, a sponsorship of $30,000 was approved. The Montreal team received $30,000 in sponsorship funds that year as well.

3.62 Some aspects of this case are troubling. First, given that a note in the file said the Edmonton proposal was initially declined because no funds were available, it is not clear why funds were available for other projects that were approved at that time.

3.63 Second, while it is clear that the Minister was approached, there was little evidence that new facts were provided or additional criteria used to support a reversal of the initial decision.

No analysis of sponsorship amount for each event

3.64 We expected files to be properly documented and, as recommended in the government's contracting policy, to provide a complete audit trail containing details on matters such as options considered, decisions, approvals, and amendments to contracts. In addition, the Supply Manual of PWGSC states that a current file on a contract serves as a historical record and an accurate audit trail in the event of a financial review, subsequent legal action, or an official complaint.

3.65 In the sample of sponsorship files that we audited, not one had any documented rationale to support the level of funding approved; nor, in fact, was there a record of any discussion at all about the level of funding (see Tour Cyclist Trans Canada).

Tour Cyclist Trans Canada

The earliest documentation in the file on the Tour Cyclist Trans Canada was a letter from CCSB's Executive Director to the event organizer, saying that the Government of Canada supported and was proud to be associated with the event. The letter went on to say, "The minimum amount of the sponsorship which will be allocated to this project will be in the amount of $1.4 million." The file contained no letter of request, no application for sponsorship funds, and no documentation or other analysis supporting the decision to enter into a contract with a communications agency to spend $1.4 million.

CCSB subsequently amended the contract, adding $400,000 to the $1.4 million sponsorship, plus agency commissions and taxes. We found no documented rationale for the additional amount. The communications agency had already certified that the event had taken place and that all aspects of the agreement had been respected. That being the case, it is hard to find a basis for the subsequent adding of $400,000 and associated commissions.

Little evidence of the value received by the Crown for the money spent

3.66 Having entered into a contract with a communications agency to manage the sponsorship of a specific event, CCSB and PWGSC were expected to show due diligence in managing the spending on the contracted services and ensure accountability for the public funds spent. Good contract management would have ensured that the contract terms and conditions were met and payments made in accordance with them, and that the invoices and post mortem reports submitted to PWGSC or CCSB were verified as reliable. As well, we expected management to have reasonable assurance that funding was used for the intended purposes, that post mortem reports were reviewed against the objectives and expected results outlined in the visibility plan, and that site visits were made.

3.67 CCSB's contract with each communications agency for one or more sponsorship projects specified that the communications agency was to submit details of a visibility plan, execute the sponsorship agreement with the event organizer, monitor the terms of that agreement, obtain proof that the event organizer had performed according to the agreement's terms, and reconcile all relevant documentation.

3.68 **Absence of visibility plans.** Almost half the files in our sample contained no visibility plan describing in any detail the visibility the government could expect to gain. In one case, for example, a member of Parliament received a request for $5,000 from a college in Quebec for financial support for its foundation. The MP forwarded the request to the Minister of Public Works and Government Services. A special assistant in the Minister's office sent the request to CCSB, which entered into a contract with a communications agency for $5,600 that included commission fees of 12 percent. CCSB approved a visibility plan by the agency that consisted solely of putting the name of the member of Parliament on a mural in the college. In this case, the Government of Canada did not receive any visibility for the $5,600 it paid, but the member of Parliament did.

3.69 **Little documentation of what was delivered.** There was little evidence that any communications agency had analyzed the results of sponsored events in our sample. Communications agencies were required to submit post mortem reports summarizing the visibility benefits, with relevant documentation, photos, and examples of visibility such as brochures and press clippings. In 49 percent of our files, there was no post mortem report and therefore no evidence that the government had obtained the visibility it had paid for.

3.70 In December 1996, for example, PWGSC's Advertising and Public Opinion Research Sector (APORS)—which subsequently became CCSB—signed a $330,000 advertising contract with Groupaction to develop a communications strategy related to the new firearms legislation. APORS received invoices for the full amount of the contract and approved the payments. However, there was no evidence that APORS received anything for the money it paid to Groupaction under this contract. The contract said this was a Justice Canada project, but Justice officials have stated that they had not requested the contract and received none of the services outlined in it.

3.71 In another case, a $465,000 contract with Groupaction in April 1997 covered the sponsorship of Série Hermez Racing and Classique du Parc/Parc Équestre de Blainville, as well as advertising-related services described as

Promotion de la culture canadienne française and Surveillance et documentation de sites et de groupes d'intérêts/Armes à feu.

3.72 Invoices were received and payments approved by APORS for the full $465,000. However, the file contained no evidence that APORS received the deliverables specified in the contract. There was also no evidence on file to indicate how public servants satisfied themselves that goods and services had been received before approving payments.

3.73 Even the files that did contain post mortem reports had no evidence that CCSB program staff had compared the reported results with the objectives stated in the visibility plan. A report by a communications agency on an event in one city contained photographs of a similar event in another city. CCSB program staff did not identify the inaccuracy or ask the agency why it had used photographs of the wrong event.

Work subcontracted without competition

3.74 The contracts with communications agencies stipulated that before subcontracting any work estimated at more than $25,000, the agencies were to obtain bids from no fewer than three other suppliers, firms, or individuals and submit the bids to CCSB.

3.75 In the 26 percent of sampled files involving subcontracts for amounts greater than $25,000, we saw no evidence that the communications agency had solicited bids from suppliers. Nor did we see evidence of any effort by CCSB to determine that this condition had been met.

3.76 The contracts also state that a communications agency may not receive a commission on work that it subcontracts to a "member of the Strategic Alliance" but they did not define strategic alliance. However, an official of PWGSC told us that the expression "strategic alliance" referred to the companies that had been listed as affiliates on the agencies' responses to the qualification questionnaire during the selection process. Over the years, communications agencies have merged, changed their names, or been bought. CCSB did not maintain up-to-date records of members of the "strategic alliance."

3.77 We observed in some cases that the communications agency had subcontracted work to a company with whom it clearly had a close relationship and had invoiced CCSB for a commission. Some companies had the same address and even the same fax number. We saw no evidence that CCSB ever questioned invoices for subcontracted work before paying them. We saw no evidence that it ever attempted to require compliance with this contract condition.

3.78 The contracts also required that CCSB approve production costs in advance. The majority of the 53 files in our sample show that CCSB was billed for production costs and there was no evidence that it had approved the production costs in advance or subsequently verified them.

3.79 Furthermore, we saw no evidence that on receiving the invoices, CCSB officials had questioned the costs before approving payments or reminded the communications agency that costs were to have been approved in advance. We found a general lack of documentation of production costs. Many of the invoices for production costs lacked support such as a description of the work that had been done or the number of hours it had taken.

Contracts amended without documented support

3.80 We found in 21 percent of the sampled files that contracts had been amended without any explanation. As already noted, one amendment added $400,000 to the contract four months after the event. The rationale for this amendment was stated in one line—it was for "added visibility." There was no evidence that CCSB had requested any added visibility, and no evidence that any had been achieved. Further, we found no analysis to support the contract's initial value of $1.4 million.

3.81 We expected that the public servants responsible for managing these files would have taken reasonable steps to protect the interests of the Crown. Those steps would have included showing due diligence in the spending of public funds, ensuring that government contracting policies and regulations were respected, and enforcing the terms and conditions of the contracts.

3.82 In the files that we audited, we saw very little evidence that the public servants responsible had made any such efforts.

Lack of compliance with relevant financial authorities

3.83 Public servants are expected to take appropriate steps to ensure that they discharge their responsibilities with prudence and probity. The *Financial Administration Act* (FAA) sets out precise conditions that govern payments. Specifically,

> No contract or other arrangement providing for a payment shall be entered into with respect to any program for which there is an appropriation by Parliament or an item included in estimates then before the House of Commons to which the payment will be charged unless there is a sufficient unencumbered balance available out of the appropriation or item to discharge any debt that, under the contract or other arrangement, will be incurred during the fiscal year in which the contract or other arrangement is entered into (section 32).
>
> No charge shall be made against an appropriation except on the requisition of the appropriate Minister of the department for which the appropriation was made or of a person authorized in writing by that Minister. Every requisition for a payment out of the Consolidated Revenue Fund shall be in such form, accompanied by such documents and certified in such manner as the Treasury Board may prescribe by regulation. No requisition shall be made for a payment that (a) would not be a lawful charge against the appropriation; (b) would result in an

> expenditure in excess of the appropriation; or (c) would reduce the balance available in the appropriation so that it would not be sufficient to meet the commitments charged against it (section 33).
>
> No payment shall be made in respect of any part of the public service of Canada, unless in addition to any other voucher or certificate that is required, the deputy of the appropriate Minister, or another person authorized by that Minister, certifies that: (i) the work has been performed, the goods supplied or the service rendered, as the case may be, and that the price charged is according to the contract or, if not specified in the contract, is reasonable; (ii) and where, pursuant to the contract, a payment is to be made before the completion of the work, delivery of the goods or rendering of the service, as the case may be, that the payment is according to the contract (section 34).

3.84 We observed that many of the files contained no signature indicating compliance with section 32 of the FAA.

3.85 We also noted in the sample of payments we audited that requisitions had been authorized by the appropriate financial officers under section 33 of the FAA.

3.86 All files contained the signatures required under section 34. However, none of the files had evidence that the signing officer had fulfilled the obligations and met the requirements of the *Financial Administration Act*. There was insufficient evidence that the work had been performed according to the requirements of the contract. For example, some payments were made on the basis of a lump sum invoice with no supporting documentation, no record of the work performed, no record of who performed the work, and no post mortem report showing that the sponsored event had taken place and that the government had received the visibility for which it had paid.

3.87 In our view, the public servants involved in administering the Sponsorship Program did not discharge their responsibilities with due care and diligence. There was little evidence that anyone had verified the reliability of the data on the invoices submitted by the communications agencies. Furthermore, the files often lacked evidence showing what work the communications agencies had done and therefore had little support for invoices paid.

How was this allowed to happen?

3.88 We are disturbed not only by the widespread circumvention of the competitive contracting process and the consistent breaking of rules essential to ensuring the proper handling of public funds but also by the fact that this was permitted to occur at all.

3.89 Two factors allowed this regime of mismanagement to occur and persist over a period of several years: departmental oversight and essential controls at PWGSC were bypassed, and the role of Parliament was not respected.

Oversight and essential controls were bypassed

3.90 PWGSC is a large department, with annual revenues of over $100 million, expenditures of over $2 billion, and 14,000 employees. It is involved in many lines of business, including providing other government entities with expertise in procurement and related common services. It manages the operations of the federal treasury, including issuing cheques from the Receiver General; and it prepares the Public Accounts of Canada and the government's monthly financial statements.

3.91 To achieve its objectives, PWGSC has established a fairly sophisticated system of internal controls and accountability reporting. While our previous audits have found some weaknesses in contracting and other management processes, we have also found that the Department's systems of internal controls are generally reliable.

3.92 Throughout our current examination we were disturbed not only by actions of Sponsorship Program managers but also by the unexplained and continual failure of oversight mechanisms and essential controls to detect, deter, and report flagrant violations of rules, regulations, and policies. The funding for sponsorships came from PWGSC's appropriations. The small number of officials in CCSB were employees of PWGSC. The authorities they exercised had been delegated to them by the Minister, through the Deputy Minister.

3.93 Senior officials at PWGSC have stressed to us that our observations on CCSB are not indicative of how the vast majority of PWGSC employees discharge their responsibilities. From our previous audits of PWGSC, we would agree. We have not observed such widespread violation of the rules elsewhere in PWGSC.

3.94 The Department has not provided us with an adequate explanation for the almost complete collapse of its essential controls and oversight mechanisms in the management of the Sponsorship Program for the four years preceding 31 August 2001. As already noted, the program consumed $250 million of taxpayers money, over $100 million of it paid to communications agencies in fees and commissions.

3.95 Once audits were begun, the problems were not difficult to find. In 2000, PWGSC's internal audit reported numerous shortcomings in the management of the Sponsorship Program. In 2001 certain improvements were carried out, including a new solicitation process and improvements in the agreement with the agency of record. A follow-up audit by PWGSC in 2002 noted that the documentation on file had improved. However, the follow-up audit did not address issues of value for money.

3.96 In our Report in May 2002 we raised significant concerns about three contracts relating to the Sponsorship Program. Following that Report, PWGSC undertook a review of all 721 files and examined 126 of them in detail. The work was done initially by a Quick Response Team consisting of PWGSC experts from appropriate areas of the Department.

3.97 That review found in most of the files significant problems with documentation, use of affiliated communications companies, overbilling, subcontracting, and potential breaches of the *Financial Administration Act*, Treasury Board policies, and departmental policies. The findings were such that the Department referred a number of files to the RCMP for review and initiated recovery actions. At the completion of our audit, the RCMP's review was still under way.

3.98 In 2003, the Department retained a private sector firm of forensic auditors to do a more in-depth review of sponsorship files on 136 events. The auditors reported that in a significant number of cases, "We note what appear to be clear issues of non-compliance with either the FAA, PWGSC-delegated authorities, or Treasury Board Contracting Policies/Government Contracts Regulations. In relation to a number of events, we have noted multiple issues of non-compliance."

3.99 The audit function worked to identify problems after the fact. What failed were the controls and oversight that should have prevented these problems from occurring in the first place. Although PWGSC's Internal Audit Branch published its report in 2000, some important subsequent management actions—for example, initiating recovery and referring matters to the RCMP—were not undertaken before 2002.

The role of Parliament was not respected

3.100 Not only was Parliament not informed about the real objectives of the Sponsorship Program, it was misinformed about how the program was being managed. The parliamentary process was bypassed to transfer funds to Crown corporations. Funds appropriated by Parliament to PWGSC were used to fund the operations of Crown corporations and of the RCMP.

3.101 PWGSC's 1999–2000 *Report on Plans and Priorities*, signed by the Minister and the Deputy Minister, contained the following statement about CCSB:

> The CCSB business line will focus on the following strategies and key activities over the planning period . . . provide core communications procurement and project coordination services to federal departments that are useful, timely and value added while ensuring prudence, probity and transparency throughout the process.

3.102 More than half of CCSB's spending was on sponsorships. Prudence and probity in the delivery of the program were certainly not ensured.

Recent improvements in management

Treasury Board Secretariat initiatives

3.103 In May 2002, the Secretary of the Treasury Board wrote to deputy ministers reinforcing the importance of respecting the provisions of the *Financial Administration Act* and the Treasury Board's contracting policies. He asked departments to undertake three specific activities in the areas of sponsorship, advertising, and public opinion research: first, to assess whether appropriate controls and procedures were in place; second, to review current contracts and ensure their compliance with the *Financial Administration Act* as well as government contracting policies and regulations; and third, to ensure that people exercising delegated authorities were properly trained and informed of their responsibilities. He also asked deputy ministers to transmit his request through their ministers to Crown corporations, asking them to conduct a similar exercise.

3.104 We reviewed the responses received by the Treasury Board Secretariat and they indicate that departments have started corrective action in the areas they acknowledged were weak.

3.105 The Treasury Board Secretariat in conjunction with PWGSC and Communication Canada also undertook a study to review the structure and design of the Sponsorship Program. That study resulted in the announcement of a new sponsorship program in December 2002 (as noted in paragraph 3.116).

Changes have been made under Communication Canada

3.106 In September 2001, the CCSB was amalgamated with the Canada Information Office to form Communication Canada, which assumed responsibility for the Sponsorship Program. It made a number of changes aimed at strengthening the implementation of the program, most notably creating a new management structure and program framework and new program guidelines (effective February 2002 and revised in May 2002). Meanwhile, responsibility for contracting was transferred to the Supply Operations Service Branch of PWGSC, the main procurement arm of the Department. More significant changes were announced later and began to be implemented on 1 April 2003.

3.107 In May 2002, a moratorium on sponsorships was imposed in order to take steps toward improving the program. The intent was to ensure that the program could operate in the public interest and on a sound basis in the future. The moratorium was brief and, pending the results of the review, an interim program was launched using in-house resources rather than contracting with communications agencies—that is, Communication Canada entered into sponsorship contracts directly with event organizers.

3.108 We audited a sample of 25 project files from September 2001 to March 2003. We found that in general these files were managed better. Although in some cases its documenting of decisions was still deficient, in most files we found enough documentation to understand the rationale behind decisions to sponsor specific events. Unlike the earlier sample we audited, all of these files contained the appropriate visibility plans and post mortem reports.

3.109 **Some circumvention of contracting rules continued.** Communication Canada improved its documenting of the use of criteria in selecting events to sponsor. However, in the period prior to July 2002 it still had not invited the qualified suppliers on the pre-established list to submit proposals each time a contract was to be awarded. In addition, we found no evidence that Communication Canada posted an annual notice of the list of qualified suppliers or gave others an opportunity to qualify for the list.

3.110 However, effective 3 July 2002, the date on which the moratorium was lifted, communications agencies were no longer used as intermediaries. This was a significant change in the way the Sponsorship Program was managed.

3.111 **Improvements in selecting and approving individual projects.** In the 25 files we reviewed at Communication Canada, we saw an improvement in the rationale for sponsoring events. All files contained proposals from event organizers, so we were able in every case to determine the nature of the event.

3.112 **Better analysis of the level of sponsorship for each event.** Communication Canada developed an analysis sheet that considered the objectives and priorities of the Sponsorship Program, the clientele, the regional distribution of sponsorships, and the participation of other sponsors. Although there were exceptions, we did see some analysis in most of the files. For example, in some cases Communication Canada had compared an event to be sponsored with a similar event sponsored previously, as a basis for deciding what level of funding to provide. In addition, Communication Canada maintained files on projects it had declined to sponsor and included analysis to support those decisions.

3.113 **Better enforcement of the terms and conditions of contracts.** The visibility plan was called a sponsorship plan in the interim program. Under Communication Canada, the sponsorship plans were based on templates prepared by Communication Canada that varied according to the amount of sponsorship money provided. This allowed for relatively consistent degrees of visibility in all events receiving similar amounts. All the Communication Canada files we reviewed included sponsorship plans, and we were able to follow the approval process.

3.114 **Improved compliance with relevant authorities.** Compliance with the *Financial Administration Act* improved considerably under Communication Canada. The required certifications under sections 32, 33, and 34 of the FAA were signed off properly.

3.115 In all of the Communication Canada files we reviewed, staff had waited for a post mortem report and compared the reported results with the objectives set out in the visibility/sponsorship plans before they made the final payment.

A new sponsorship program has been launched

3.116 A new sponsorship program was announced in December 2002 by the President of the Treasury Board, the Minister of Public Works and Government Services, and Communication Canada, effective 1 April 2003. The program is now delivered through a contribution program. Its key features include the following:

- There will be no contracting with third parties.
- Payments are to be made under contribution agreements instead of contracts.
- Written guidelines will be issued for use by program staff.

- Transparency is to be achieved through nationwide publicizing of the program, its objectives, the selection criteria, the events that have been approved, and the funds each event will receive.
- Audits are to be conducted, event sites visited, and compliance with contribution agreement terms and conditions demonstrated before final payments will be made.

The announcement also stated that the program will be in place for 2003–04, during which time the government will assess its value and viability for the long term and publicly report the results. While we are encouraged by the announcement, we have not audited this new program.

3.117 It is important to stress that even while the previous Sponsorship Program was being mismanaged, there were sound rules in place. The *Financial Administration Act* spelled out the requirements and obligations of public servants. The government's own contracting policies articulated quite clearly the steps that public servants were to follow. Yet public servants consistently failed to follow the rules.

3.118 While the new program may provide an opportunity to correct the weaknesses we identified, Parliament and Canadians need assurance that this time, all of the rules will be followed.

Conclusion

3.119 In its 2000 *Report on Plans and Priorities* to Parliament, PWGSC stated that it was managing the Sponsorship Program in a manner that ensured prudence and probity. This was clearly not the case.

3.120 Until 1 September 2001, the government ran the Sponsorship Program in a way that showed little regard for Parliament, the *Financial Administration Act*, contracting rules, transparency, or value for money. There was little evidence of prudence and probity. In May 2002, the Treasury Board wrote to the departments reinforcing the importance of respecting the provisions of the *Financial Administration Act* and contracting policies and regulations. In addition, the government announced a new sponsorship program, effective April 2003.

3.121 Since Communication Canada was formed in September 2001, there have been significant improvements in the Sponsorship Program. The current Executive Director has informed his staff that he expects these improvements to be sustained. He has stated that a thorough internal audit will be conducted by 2005. We hope that this will indeed be a thorough and comprehensive audit, one on which we will be able to rely. We hope that the results of the internal audit will be reported to Parliament in a timely manner.

3.122 It remains of great concern, however, that the Sponsorship Program was ever allowed to operate in the way it did. Considerable amounts of public funds were spent, with little evidence that obtaining value for money was a concern. The pattern we saw of non-compliance with the rules was not the result of isolated errors. It was consistent and pervasive. This was how the government ran the program. Canadians have a right to expect greater diligence in the use of public funds.

3.123 Public servants need to ensure that funds spent on communications, whether for sponsorship or for advertising, require no less attention to the *Financial Administration Act* and no less attention to contracting rules than all other spending of public funds, and as much concern about getting value for the taxpayer's money.

About the Audit

Objectives

Our audit objectives were to determine

- whether the government exercised adequate control over its Sponsorship Program,
- whether the results of these activities have been measured and reported them to Parliament, and
- to what extent the government has taken corrective action as a result of previous audits or reviews.

Scope and approach

We examined a risk-based sample of 38 project files and a random sample of 15 project files from 1997 to 31 August 2001, managed by the Communication Coordination Services Branch (CCSB) of Public Works and Government Services Canada (PWGSC); and a random sample of 25 files from 1 September 2001 to 31 March 2003, managed by Communication Canada. We reviewed the work performed by PWGSC's Internal Audit and its Quick Response Team. They reviewed 580 files and 126 files respectively. We interviewed officials of PWGSC, the Treasury Board Secretariat, and Communication Canada. We also interviewed some former officials and former ministers responsible for CCSB.

Criteria

We expected that the government would do the following:

- comply with authorities;
- ensure that sponsorship activities were designed to achieve expected results;
- exercise due diligence in approving individual projects;
- ensure due diligence in spending and account for public funds spent;
- have reasonable assurance that funding was used for the intended purposes;
- appropriately manage the risks inherent in third-party delivery, where applicable;
- have a clearly communicated accountability framework in place, including performance management and reporting; and
- conduct periodical review and appropriate follow-up.

Crown corporations

Objectives. The objectives and criteria for our audit of sponsorship funding to Crown corporations varied slightly from those used in our examination of the departments. We set out to determine whether selected Crown corporations had exercised adequate control over sponsorship activities involving funds received from the government or disbursed to the government to promote government objectives. We also wanted to determine the extent to which the selected Crown corporations had taken corrective actions as a result of previous audits or reviews.

Scope and approach. We selected 10 Crown corporations: two on a risk basis and eight from the Sponsorship Program database. We examined all 46 transactions from the Sponsorship Program database for those eight Crown corporations. We also looked at transactions from 1997 to 2003 that we selected from the Crown corporations' databases. We interviewed officials of the Crown corporations, PWGSC, the Treasury Board Secretariat, and Communication Canada.

Criteria. We expected that the Crown corporations would do the following:

- comply with relevant authorities;
- ensure that sponsorship activities were designed to achieve the expected results;
- exercise due diligence in approving individual projects;
- ensure due diligence in spending and account for public funds spent;
- have reasonable assurance that funds were used for the intended purposes;
- appropriately manage the risks inherent in third-party delivery, where applicable; and
- periodically review sponsorship activities and follow up as appropriate.

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