

2003



Report of the
**Auditor General
of Canada**
to the House of Commons

NOVEMBER

**Government-Wide Audit of Sponsorship,
Advertising, and Public Opinion Research**

Chapter 3
The Sponsorship Program

Chapter 4
Advertising Activities

Chapter 5
Management of Public Opinion Research

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The November 2003 Report of the Auditor General of Canada comprises ten chapters, Matters of Special Importance—2003, a Foreword, Main Points, and Appendices. The main table of contents is found at the end of this publication.

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**Government-Wide Audit
of Sponsorship, Advertising,
and Public Opinion Research**

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.



Government-Wide Audit of Sponsorship, Advertising, and Public Opinion Research

Overall Main Points

- 1 We found that 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. These arrangements—involving multiple transactions with multiple companies, artificial invoices and contracts, or no written contracts at all—appear to have been designed to pay commissions to communications agencies while hiding the source of funding and the true substance of the transactions.
- 2 We found widespread non-compliance with contracting rules in the management of the federal government’s Sponsorship Program, at every stage of the process. Rules for selecting communications agencies, managing contracts, and measuring and reporting results were broken or ignored. These violations were neither detected, prevented, nor reported for over four years because of the almost total collapse of oversight mechanisms and essential controls. During that period, the program consumed \$250 million of taxpayers’ money, over \$100 million of it going to communications agencies as fees and commissions.
- 3 Public servants also broke the rules in selecting communications agencies for the government’s advertising activities. Most agencies were selected in a manner that did not meet the requirements of the government’s contracting policy. In some cases, we could find no evidence that a selection process was conducted at all.
- 4 The government’s communications policy states that federal institutions must suspend their advertising during general federal elections. We noted that the policy was properly implemented.
- 5 Overall, public opinion research was managed transparently, with roles and responsibilities clearly defined. However, there were some cases in which departments did not establish a clear statement of the need to undertake a public opinion research project. In a small number of troubling cases, we noted that the government had failed to follow its own guidelines in effect at the time and had paid for syndicated research that monitored, among other things, voting behaviour and political party image.
- 6 While these chapters contain 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 follow.

Recommendations

The observations contained in chapters 3, 4, and 5 of our Report are serious. Action is required in many areas, both in Crown corporations and across government departments.

Recommendation. The government should ensure the development of an action plan for sponsorship, advertising, and public opinion research activities that addresses all of the observations in the three chapters.

As noted in the report the government has undertaken a number of actions to strengthen the management of the sponsorship, advertising, and public opinion research activities. Continued effort is required by the government to ensure that these improvements are sustained. In particular the government should continue to ensure that

- public servants understand their obligations and comply with the *Financial Administration Act*, and
- public servants who are given responsibility for managing advertising activities have the necessary specialized expertise in the subject matter.

In addition, the action plan should include details of actions the government will take to ensure that

- any operating units established to undertake new activities do so with proper control, accountability, and transparency;
- public servants discharge their contracting responsibilities in a manner that complies with the Government Contracts Regulations and Treasury Board policies and that Public Works and Government Services Canada complies with its own policies and stands the test of public scrutiny in matters of prudence and probity, facilitates access, encourages competition, and reflects fairness in the spending of public funds;
- parliamentary appropriations are respected;
- any transfers of funds between government entities are conducted with transparency and efficiency;
- arm's-length relationships are maintained between Crown corporations and government departments; and
- action is taken on issues raised in any other review or investigation conducted by the government or by other agencies.

The action plan should specify time frames, accountabilities, and any recovery action or sanctions that the government decides to impose.

The government's response. The Government of Canada is deeply concerned about the findings contained in these audits and takes the issues raised in them very seriously. The government has taken action on most of the issues and will take action on any new issues raised.

The government has been working over the past several years to address the issues observed in these audits. The government is committed to excellence in management, and it continues to make significant progress in modernizing and strengthening its management practices, based on a strong partnership between Treasury Board Secretariat and government departments. It has implemented a broad-based government-wide agenda to strengthen and modernize management, including a new Management Accountability Framework for the public service, Guidance for Deputy Ministers, and a new Values and Ethics Code for the Public Service.

The government's commitments are reflected in its leadership in undertaking the Public Works and Government Services Canada 2000 internal audit of sponsorships and by acting on its findings. When it became apparent that there were further issues, the Minister of Public Works and Government Services requested that the Auditor General examine three specific contracts awarded in 1996, 1998, and 1999. The Minister also imposed a moratorium on any new sponsorships in May 2002, and then set up an interim program to eliminate the use of communication agencies. These efforts were followed by a complete and detailed review of sponsorship program files, and remedial actions including withholding and recovering monies, in bringing issues to the attention of the appropriate authorities, and in addressing program design and management issues.

While these efforts were underway, in 2002 the Treasury Board Secretariat, in collaboration with Public Works and Government Services Canada and Communication Canada, conducted a comprehensive review of the sponsorship, advertising and public opinion research programs.

In response to the recommendations of that review, the government looked to the future by implementing a completely new management and accountability regime for the Sponsorship Program as of 1 April 2003, and which requires a complete review before any extension beyond 31 March 2004.

A comprehensive action plan was also put in place with respect to advertising management practices guided by the objectives of transparency, accountability, value for money and increased competition. Communication Canada has established a core centre of expertise which continues to implement the plan that the Minister of Public Works and Government Services announced on 28 April 2003.

Beyond the other two programs, there were also recommendations made with respect to the management of public opinion research in government. Since

that time, Communication Canada has been working to fulfill and to meet the recommendations of the reviews.

In May 2002, the Secretary of the Treasury Board wrote to each Deputy Minister regarding expenditures related to the three activities which are the focus of these chapters, along with a request for an assessment of management capacity and adherence to the *Financial Administration Act*. A copy of the letter, as well as the departmental replies, were provided to the Office of the Auditor General in the course of the audits which follows.

The government's actions to date are fully outlined in a detailed and comprehensive response to the Tenth Report of the Standing Committee on Public Accounts, which can be found at:

http://www.tbs-sct.gc.ca/report/gr-rg/grtr-rgdr_e.asp

The government will review further these audits to ensure that any additional issues are addressed. This includes ensuring that departments have appropriate management regimes in place when undertaking initiatives with Crown corporations.

The government has demonstrated by its actions the seriousness with which it takes any evidence of alleged misconduct or mismanagement of public funds, by responding to all reviews and investigations, by government or by other agencies, including efforts to recover any misappropriated funds, and employee discipline ranging from reprimands to loss of employment, including involving the appropriate authorities where warranted.

The government is committed to continuing to work diligently on the implementation of specific measures to address these issues.