Chapter 4

Advertising Activities

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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Advertising Activities

Main Points

4.1 The Communications Coordination Services Branch (CCSB) of Public Works and Government Services Canada failed to meet its obligation to allow suppliers equitable access to government business and obtain best value in selecting advertising agencies. 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. CCSB officials disregarded the same rules and selected the same agencies as those in Chapter 3 of this Report, on the Sponsorship Program.

4.2 The government needs to ensure that officials in all departments possess the skills they need to meet their obligations and manage their advertising expenditures responsibly. Our audit found that some departments did poorly at carrying out their responsibility for ensuring that agencies complied with the requirements of contracts; other departments met their obligations without difficulty. Some departments did not require that communications agencies seek competitive bids on work they wanted to subcontract, nor did the departments challenge commissions charged by agencies or invoices submitted without adequate support.

4.3 The government's communications policy states that federal institutions must suspend their advertising during federal general elections. We noted that this aspect of the policy was properly implemented.

Background and other observations

4.4 Unlike the Sponsorship Program, for which CCSB was fully responsible, advertising responsibilities were shared. CCSB was responsible for selecting the agencies; individual departments were responsible for managing the advertising campaigns and ensuring that the contract terms and conditions were met.

4.5 The Privy Council Office provides strategic oversight and coordination for government advertising.

4.6 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

Advertising allows the government to inform Canadians about its programs and initiatives

4.7 Advertising is a way for the government to speak directly to citizens, whether informing them about services, programs, initiatives, and government policies; about their rights and responsibilities; or about dangers or risks to public health, safety, and the environment.

4.8 In recent years, for example, the Canada Customs and Revenue Agency has advertised the use of its Web site for filing tax returns electronically. National Defence has used advertising as a recruiting tool. Health Canada has advertised its anti-tobacco initiative, and the Department of Finance has promoted Canada Savings Bonds.

4.9 Between 1998–99 and 2002–03, the federal government ran more than 2,200 advertising activities with contracts valued at about $793 million, making it one of the larger advertisers in the country.

4.10 The Government of Canada contracts with communications agencies to develop concepts and plan its advertising campaigns, produce advertising material, and plan all ad placements in the media. It also has a service agreement with an agency of record, which buys space and time in the media for all government advertising and negotiates the payment rates. Communications agencies receive hourly rates and a 17.65 percent commission on production work they subcontract out. For planning media placements, they also receive, through the agency of record, a commission of 11.75 percent on media space and time purchased by the agency of record. For placing ads and making payments to the media and the communications agencies, the agency of record receives a 3.25 percent commission.

4.11 **A corporate approach.** Until 1998, there was no unified approach to government advertising. Most federal departments and agencies had their own logos and promoted their programs and services individually. Then the government decided on a corporate approach to advertising. It wanted to ensure that it spoke with one voice when advertising its programs and services. To help departments develop and implement communications plans and strategies, particularly for advertising, in 2001 the Privy Council Office (PCO) developed a communications framework and marketing plan based on the priorities set out in the Speech from the Throne. In concert with the Treasury Board Secretariat, the PCO also launched a brand rationalization process, with about 800 brands and logos ultimately replaced by a common look and the Canada wordmark.

4.12 The PCO's Communications and Consultation Secretariat advises Cabinet on communications strategies, including advertising. As Chair of the Government Advertising Committee, the PCO provides advice and guidance to departments on planning and developing major advertising campaigns. It advises and supports the Cabinet Committee on Government Communications, which is chaired by the Minister of Public Works and

Government Services and oversees the government's corporate communications strategy and approach, including advertising.

Advertising activities are the responsibility of individual departments but are centrally co-ordinated

4.13 Individual departments identify their advertising needs based on their program priorities and the government's key priorities; they must use Public Works and Government Services Canada (PWGSC) to contract for all advertising services and public opinion research (see Chapter 5 of this Report), after obtaining authorization from Communication Canada.

4.14 Departments identify the funds to be used for advertising and they plan, develop, and implement advertising campaigns. Major campaigns must be submitted for review to the Government Advertising Committee, chaired by the Privy Council Office.

4.15 Departments have to pre-test and evaluate all major campaigns and forward the results to Communication Canada. Each department manages its own contracts with the advertising agencies and ensures when it pays for services that the terms and conditions of the contracts have been respected.

4.16 Until September 2001, the Communications Coordination Services Branch (CCSB) of PWGSC was responsible for collecting and reviewing departments' advertising plans; issuing a registration number for each advertisement (referred to as an "ADV" number); gathering and analyzing departments' advertising and public opinion research plans; and informing the Privy Council Office of these activities. In September 2001, co-ordination of advertising was assumed by Communication Canada, an organization created by the amalgamation of CCSB with the Canada Information Office.

4.17 Public Works and Government Services Canada is responsible for ensuring the integrity of the contracting process in the federal government's advertising activities. Until September 2001, its Communications Coordination Services Branch was responsible for selecting advertising agencies and the agency of record and for issuing contracts to them on behalf of all federal departments. CCSB handled contracting for advertising services itself rather than using PWGSC's central contracting service. When CCSB ceased to exist in September 2001, all contracting for advertising services was assumed by the Communication Procurement Directorate, a group in PWGSC's procurement arm, thereby separating the procurement of advertising from the management of the program.

Focus of the audit

4.18 Our objective was to determine whether, in contracting for advertising services, the federal government ensured that it obtained best value for the Crown in a process that was transparent and gave equitable access to suppliers of advertising services. We also wanted to determine whether departments ensured that their advertising campaigns were designed to achieve the expected results. Finally, we wanted to assess whether the systems and procedures in place allowed for a corporate approach to advertising activities and their co-ordination, as required by the Treasury Board's policy on communications. Further details are found at the end of the chapter in **About the Audit**.

4.19 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

Selection of agencies

Competitive process was not used in the selection of several advertising agencies

4.20 As the only contracting authority for advertising services, PWGSC is responsible for selecting the advertising agencies used by all federal organizations. In the period covered by this audit, the Department's Advertising and Public Opinion Research Sector, or APORS (1994–97) and subsequently CCSB was responsible for selecting agencies.

4.21 The objective of government contracting is to acquire goods and services in a manner that enhances suppliers' access to government business, encourages competition and fairness, and results in the best value to the Crown or the optimal balance of overall benefits to the Canadian people. It was CCSB's responsibility to ensure that the process for selecting advertising agencies was transparent. We expected the files to be properly documented and, as recommended by 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. We audited the selection of advertising agencies for 10 departments and one Crown corporation, Canada Mortgage and Housing Corporation.

4.22 In the cases described on pages 6–7, we noted contracts that had been awarded to companies without a proper competitive process. Other potential suppliers were not given the opportunity to compete for the work.

A competitive process that was used broke the contracting rules

4.23 The government's contracting policy requires that the acquisition of goods and services through contracting follow a process that enhances access, competition, and fairness and obtains the best value possible. From 1998–99 to 2002–03, the Government of Canada issued advertising contracts valued at over $793 million. In our sample of 14 files on selection processes that occurred during that period, we found that most of the agencies were selected in a manner that did not comply with the government's own contracting policy.

Contracts awarded without competitive bids

Contracts for Tourism Canada worth over $65 million awarded to BCP

In 1994, PWGSC conducted a selection process for Tourism Canada.

- Vickers and Benson Co. Limited was informed that it had been selected to support Tourism Canada's advertising and communications requirements in the United States.
- BCP and four other bidders were informed in writing that they had not been selected.
- We found no documentation in the files to indicate that PWGSC subsequently held a competition and selected BCP.
- Between 1 April 1995 and 31 March 2003, Tourism Canada and the Canadian Tourism Commission paid BCP $65.7 million for advertising projects.

In our opinion, advertising contracts were awarded to BCP on a sole-source basis. There is no assurance that the government obtained the best value for these expenditures. Other potential suppliers were never given the opportunity to compete for the $65.7 million in contracts.

Contracts for Justice Canada worth over $5.4 million awarded to Groupaction

As a member of a consortium that PWGSC had selected in 1993* for Justice Canada, Groupaction was the advertising agency for that Department.

- In 1998, Justice officials informed CCSB that they were not satisfied with Groupaction's work and urged it to select a new agency through a competitive process. They asked again in March 1999.
- CCSB began a competitive process in mid-1999 and advised Groupaction that until the process was completed, Justice would renew the long-term agreement with Groupaction on a month-to-month basis. However, the process was halted without explanation and Groupaction was retained until mid-2002. During that period (mid-1999 to mid-2002), contracts worth over $5.4 million were issued to Groupaction.

Contracts for Canada Custom and Revenue Agency worth over $1.3 million awarded to Groupaction

- PWGSC initiated a competitive process in September 1994 to select a national advertising agency for the Canada Customs and Revenue Agency (CCRA). Seventeen agencies participated in the competition. In February 1995, PWGSC advised the 17 agencies that the competition had been cancelled, but gave no explanation.
- Around the same time, PWGSC ran competitions for CCRA and selected advertising agencies for its Quebec, Ontario, Western, and Atlantic regions; it selected Groupaction in May 1995 as the agency in the Quebec region.
- In 2001, PWGSC issued two contracts to Groupaction to develop two national advertising campaigns for the Canada Customs and Revenue Agency, although Groupaction had been selected as the agency only in the Quebec region.
- No competitive process was conducted for the national advertising projects. Other potential suppliers were never given the opportunity to compete for contracts worth over $1.3 million.

Contract for the Canada Health Care campaign designed to direct work to a company not selected through a competition process

The Canada Health Care campaign was launched in September 2000 to inform Canadians about a recent federal-provincial agreement to increase funding for health care.

The Privy Council Office (PCO) was responsible for the content of the advertising campaign, but the Canada Information Office (CIO), at the time the Government of Canada's operational arm for corporate communications, was responsible for managing the campaign itself.

The PCO explained to us that it wanted a particular agency, The Gingko Group, to design and produce the campaign because the agency had produced a similar campaign for a provincial government and had been highly recommended.

However, Gingko had not been selected as an assigned agency for the CIO through a competitive process. Contracting rules allow for sole-sourcing in emergencies or when only one supplier is qualified. CCSB chose to create an arrangement that hid the true substance of the transaction. It issued a contract for $619,000 to Communication Coffin, which had been selected in 1997 for sponsorship and advertising activities. There was no evidence in the file to suggest that Coffin was to do any of the work. Coffin subcontracted all of the work to Gingko. The official who managed this file could not provide us with a rationale or documentation to explain why CCSB did not issue the contract to Gingko for the work.

The file shows that the Canada Information Office and the PCO dealt directly with Gingko as the main creative agency on the campaign and that Gingko did all the work (planning, strategy, creative, production, and so on). There is no sign that Coffin, the firm with the contract for this campaign, did any work on it.

Bids not obtained as required by the contract. In order for Coffin to subcontract work valued at more than $25,000, it was required to obtain three bids and to justify its choice of subcontractor to the CIO. There is no evidence in the file to indicate that this was done.

*We did not audit that selection process.

Contracts awarded without competitive bids (continued)

Unnecessary commission paid for subcontracted work. Gingko, the agency that was actually developing the campaign, subcontracted production work and submitted the bills to Coffin after adding the standard commission of 17.65 percent on the subcontracted work. Coffin billed the government for reimbursement of Gingko's invoice and added another 17.65 percent commission for itself.

In the end, Coffin received $78,400 in commissions for subcontracting work to Gingko, a cost that would have been avoided if CCSB had awarded the contract directly to Gingko, who did all the work.

Nothing in the file indicated that it had ever been the intention of the CIO or CCSB that Coffin do the work. In order to circumvent requirements for competitive bidding and ensure that Gingko would do the work, CCSB created a contract designed to hide the true substance of the transaction.

4.24 Between 1994 and 2001, PWGSC conducted selection processes on behalf of about 36 departments and agencies and some Crown corporations. Through a selection process in 1997, CCSB selected Media/I.D.A. Vision, a company related to Groupe Everest, as the government's agency of record. We reviewed 14 selection processes, including the one used to select the agency of record.

4.25 The selection process started with CCSB's posting of a Notice of Planned Procurement, called a request for "letters of interest," on the government's Open Bidding System (later known as MERX). The notice followed a client department's request to PWGSC to obtain general advertising services.

4.26 In most of the files we examined, we did not see evidence that APORS, and later CCSB, had specified which requirements were mandatory and which would be rated, how bidders would be rated, the method that would be used to select the suppliers, or the pass mark (score) they had to obtain. All of this information was required under PWGSC's own procedures.

4.27 In 12 of the 14 selection processes, including the one for the agency of record, the request for letters of interest did not specify how long the services would be required. In the selection of agencies for Department of Finance Canada and the Canada Mortgage and Housing Corporation (CMHC), both in 2001, the request for letters of interest mentioned that the winning agency would be retained for a period of three years with an option to renew twice, each time for an additional year.

4.28 In seven cases, including the selection of the agency of record, the requests for letters of interest were posted for periods ranging from 12 to 18 days, although the government's policy on contracting for advertising required that they be posted on the MERX system for 30 days.

4.29 Competing agencies had to respond to a qualification questionnaire sent to them by PWGSC after they had indicated an interest in competing for the advertised work. From responses it received to the questionnaire, PWGSC compiled short lists of usually four or five agencies. These agencies were then invited to make a presentation and were rated on that basis.

4.30 In most cases, we did not see evidence that the questionnaires completed by the competing agencies were evaluated. As a result, it is impossible to determine how the requirements were scored or short lists arrived at, or how and by what criteria the majority of interested communications agencies were screened out in the first rounds of the processes.

4.31 Our review of selection processes for advertising agencies found in most cases that the letter advising the successful agency of its selection did not mention the duration of the contract.

Failure to fulfil contractual obligations and ensure appropriate oversight of the agency of record

4.32 The March 1998 agreement with Media/I.D.A. Vision, making it the agency of record for the next five years, stated that the agency had a "material obligation to negotiate and obtain from the media suppliers the best possible prices, rates or fees charged by these suppliers" for the placement of government ads. The statement of work specified that the agency of record had "to co-ordinate and, where necessary, to adjust all media plans to ensure optimum scheduling and impact and to achieve the most favourable reach and frequency at optimum cost."

4.33 The agreement stipulated that the government had a specific responsibility: "To periodically verify if the contractor has fulfilled his material obligation, the Minister will conduct audits of the Contractor's records pertaining to this Contract." The agreement described the actions that the Minister would take should an audit discover specified deficiencies, such as a failure by the agency of record to obtain the best possible prices in an advertising campaign. In the five years that the contract has been in place, no audit of the agency has been conducted.

4.34 The Government of Canada issued contracts over $435 million on media placement purchases during the five years covered by its agreement with Media/I.D.A. Vision, its agency of record. The agreement with Media/I.D.A. Vision stipulated that once the gross media billings in a fiscal year reached $50 million, the fee that departments paid would be reduced from 3.25 percent to 2.5 percent depending on the level of billing. We would expect the government to ensure that the fee was reduced as appropriate.

4.35 Officials told us they had monitored the cumulative total of expenditures on media placements and had informed Media/I.D.A. Vision when the fee was to change. However, they could not give us any documentation to support this claim.

4.36 While we saw no evidence that CCSB ever instructed departments to reduce the rate they paid to the agency of record, we did see evidence that Media/I.D.A. Vision credited departments' accounts to reflect some reduction in the commission. However, there is no evidence that CCSB ever verified that the amounts credited reflected the correct reduction.

4.37 From Media/I.D.A. Vision's invoices, it was difficult for departments to verify how much had been paid to media outlets for ad placements. The invoices billed gross amounts, including commissions to both the agency of record and the communications agency. That practice was changed in July 2002 at the request of PWGSC, after some departments asked for more detailed information. Media/I.D.A. Vision then started to show the breakdown of commissions in its invoices.

Management of contracts by departments

4.38 Once CCSB had selected an advertising agency for a client department, it issued contracts between the two parties for the specific advertising services requested by the department. Departmental officials were responsible for ensuring not only that the contract requirements were met but also that the *Financial Administration Act* was respected. We audited 34 contracts for advertising services.

Unwritten contracts exposed the Crown to undue risk

4.39 Signed contracts with detailed terms and conditions outline the responsibilities of each party. Written contracts are important because they serve to limit the Crown's liability while specifying what the contractor must do to be paid.

4.40 We found cases in which contracts had been issued verbally by CCSB on behalf of Health Canada. The government's contracting policy allows for this practice, but it also states that a written contract should be signed as soon as possible after the notice of the award has been given to the successful bidder.

4.41 In some cases, however, the contractor worked for several weeks before terms and conditions were specified and a contract signed. In one case at Health Canada, the National Organs and Tissues Awareness campaign, a $1.52 million contract signed with BCP on 28 March 2002 stated that the work was to be completed by 31 March 2002—three days later. In fact, the work had already been completed and the campaign had been airing since 4 March.

4.42 Another case at Health Canada involved a contract valued at $414,405 for the development of an anti-tobacco campaign. We observed that the contractor's proposal was dated 25 March 2002; the contract was issued on 28 March 2002 and was in effect until 31 March 2002, three days later. Of particular concern to us is that invoices totalling $179,570 had been approved for payment, one as early as 15 February—more than five weeks before the contract was signed. Without a written contract, it was impossible for Health Canada to ensure before it paid the invoices that terms and conditions of the contract had been respected.

4.43 The files show that Health Canada and CCSB did begin the contracting process before the work started. Health Canada officials told us that although work began before a written contract existed, they had never intended (nor was it the intent of the contracting policy) that the work would be completed before the contract was signed.

Departments did not ensure that contract terms and conditions were respected

4.44 Once a contract was issued by CCSB, the client department was responsible for ensuring that the contract terms and conditions and the relevant provisions of the *Financial Administration Act* were respected. We expected that departments would do so before approving payments to the agencies.

4.45 We also expected that invoices would be approved by authorized persons in the department in accordance with section 34 of the *Financial Administration Act*. Section 34 says the authorized person must ensure that

> 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; 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.

4.46 In many cases, departmental staff did not take adequate steps to ensure that the contractor had met the requirements of the contract.

No challenge of commissions on work subcontracted to affiliated companies

4.47 The contracts prohibited the payment of a commission for overhead or profit to a "member of the Strategic Alliance" but did not define strategic alliance. An official of PWGSC told us that the expression referred to the companies that agencies had listed as affiliates on their responses to the qualification questionnaire during the selection process. Over the years, communications agencies have merged, changed their names, or been bought. We saw no evidence that departments and PWGSC had enforced the contract clause on strategic alliances or verified the lists of strategic alliance members.

4.48 In three departments in our sample (CCRA, PWGSC, and Department of Justice Canada), we found invoices showing that they had been charged a commission of 17.65 percent on work subcontracted by the agency to a supplier affiliated with it. The invoices gave some indication that the companies had a close relationship—for example, both the agency and the subcontractor had the same logo on their letterhead, the same telephone number, or closely similar names. We saw no evidence that the departments had challenged any of the invoices. For example, on six invoices totalling $47,465 under a contract with CCSB, Groupe Everest charged the government a commission of 17.65 percent or $8,378 for subcontracting work to Everest-Estrie. We saw no evidence that CCSB ever challenged these invoices.

Subcontracted work was not tendered competitively

4.49 In each of the departments we reviewed, we found cases with no evidence that the contractor had obtained three bids on subcontracted work over $25,000 or had justified its choice of subcontractor to the department, as required in the contract.

4.50 For example, under a $3 million contract managed by CCSB for Attractions Canada in 2000–01, Groupe Everest subcontracted work valued at $274,735 to one company and $150,000 to another without submitting evidence that it had obtained three bids.

4.51 Under a $1.9 million contract managed by Department of Justice for an advertising activity in 2000, Groupaction subcontracted work valued at $355,999 to Alleluia Design without submitting evidence that it had obtained three bids. Of particular concern is that Groupaction was affiliated with Alleluia. Groupaction and Alleluia Design invoices showed the same phone number and the same departmental reference number, yet the Department did not question the companies' relationship and approved the payment of a 17.65 percent commission.

Departments approved payment of invoices with incomplete or no supporting documentation

4.52 Before approving payments, departments were to ensure that the invoices had all the documentation required by the contracts to support the amounts claimed. In several cases, we found that supporting documentation was incomplete or absent.

4.53 For example, CCSB approved an invoice for $800,000 submitted by Groupe Everest in October 1997 that gave only a short description of the items charged, with no supporting documentation. The Canada Information Office approved an invoice for $1.2 million from Media/I.D.A. Vision with insufficient documentation to support it. On a contract valued at $856,000 related to its 1999–2000 annual anti-racism campaign, the Department of Canadian Heritage approved payments to its agency, Scott Thornley Company Inc. of Toronto, for invoices totalling $250,000 with insufficient documentation.

4.54 Invoices that we reviewed at the Department of Finance, the Department of Canadian Heritage, Human Resources Development Canada, and CCSB were for lump sums, with no breakdown of hours worked by each category of employee, as required by the contracts. There was insufficient information for officials to determine that the charges were acceptable. Nonetheless, the invoices were approved for payment.

4.55 The contracts required that each invoice contain the contractor's certification that the work had been done and that the charges were consistent with the contract terms. Many of the invoices from communications agencies lacked the required certification. Nor did we see any evidence of follow-up by departmental officials.

Estimates were not always approved by departments before work started

4.56 The contracts we reviewed required the agencies to submit written estimates to the departments for approval before beginning any work. If the cost of the completed work exceeded the approved estimates, the Crown would not have to pay more than 10 percent over the estimate.

4.57 Many files we reviewed contained no approved estimates—for example, contracts managed by CCSB for Attractions Canada. In the majority of invoices for the Department of Canadian Heritage's $1.9 million millennium anti-racism campaign in 1999–2000, the Department used the initial global budget as the estimate. We could not establish whether this initial budget had been approved in the first place. The Department has since changed its practices and was able to demonstrate that for the 2002–03 anti-racism campaign, a detailed budget and the scope of work had been approved and were attached to the contract.

4.58 In one case, the Department of Finance approved an invoice for $294,593 from Vickers and Benson before it had approved the related estimate. Our review of the documentation showed that the services were delivered in early fall and the invoice was dated 16 November 2000. The related estimates ($766 and $315,012 respectively) were dated 5 January and 14 February 2001. Although the invoice was not paid until 26 February 2001 after the Department had received the estimates, we are concerned that it did not receive them until three months after the work was completed and the invoice sent.

4.59 Our audit also found similar and other contract management problems in the Canadian Tourism Commission (see case study on page 13), and in the Canada Mortgage and Housing Corporation (see case study on page 14).

Obligations under the *Financial Administration Act* were not always met

4.60 Many of the files we audited contained no evidence that departmental officials had met their obligations under the *Financial Administration Act*. Some public servants, for example,

- approved payments without reference to the work to be performed, normally set out in the contract;
- did not verify that commissions charged were consistent with contract terms; and
- approved the payment of invoices without supporting documentation showing what services had been received and that the charges were consistent with contract terms.

4.61 In our opinion, public servants in those cases did not meet their obligations under the *Financial Administration Act*.

Some good practices and some problems corrected

4.62 We also found that in some cases, departments appeared to have no difficulty managing contracts properly. We saw evidence that HRDC had good controls and had reconciled payments with approved estimates. At the

Management of advertising contracts by the Canadian Tourism Commission

Until December 2000, the Canadian Tourism Commission (CTC) was part of Industry Canada. With advertising contracts averaging more than $40 million a year, it was the largest advertiser in the Government of Canada. When it became a Crown corporation, the CTC continued using the same advertising agencies selected in 1994; until March 2003, for the majority of projects it used terms and conditions similar to those of the old PWGSC contracts.

We expected that before approving payments, the CTC would ensure that the contract requirements had been met. In a sample of contracts and payments between 1 January 2001 and 31 March 2003, we observed a number of problems in contract management similar to those we saw in departments. For example, contrary to terms and conditions of the contracts, estimates were not always approved before invoices were submitted. Payments were made for invoices that showed only lump sum amounts instead of hourly fees, as required by the contracts. In one case we noted a management fee that had not been specified in the contract but was paid on the basis of verbal negotiations. The CTC approved payments for subcontracted work exceeding $25,000, although the contractor had not submitted the required three bids on the work. In addition, we noted that the CTC did not regularly compare its total payments to advertising agencies with the value of each contract to ensure that the total amounts it paid were in accordance with contract terms and conditions.

The CTC earned an estimated $9 million a year in revenues from sales of advertisements in publications and newspaper inserts. We noted that the CTC did not directly control all of these revenues; they were managed by the advertising agencies. However, in the contracts the CTC had not identified its expectations or the agencies' obligations in their management of the revenues. As a result, the CTC did not properly control the activities of the agencies. The CTC now collects the revenues and has stopped relying on the two previous advertising agencies.

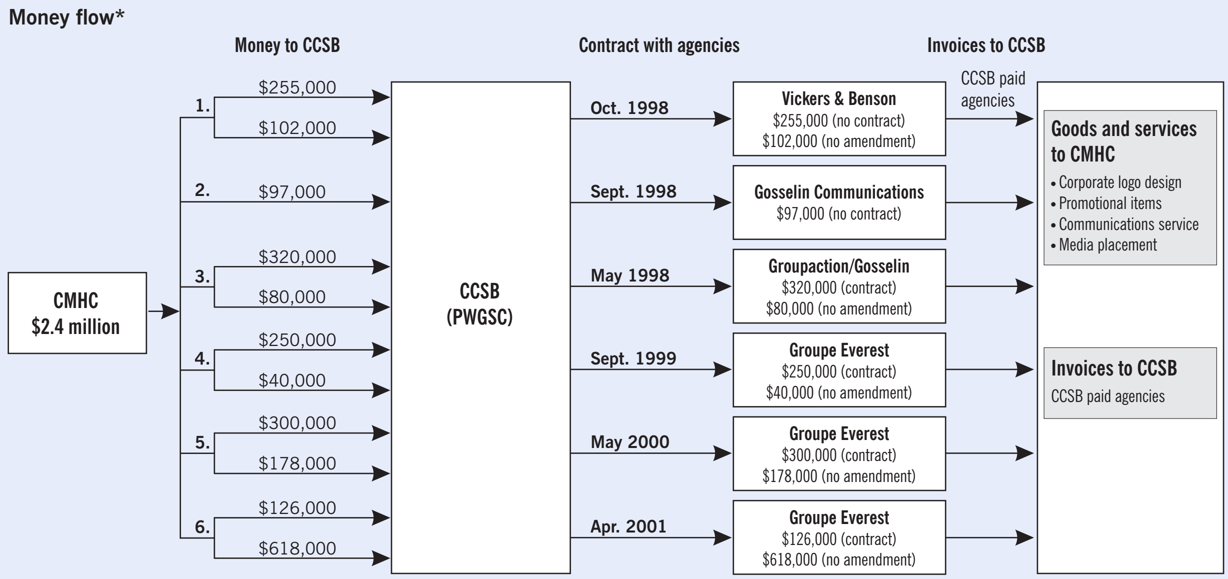
Canada Customs and Revenue Agency and the departments of Finance, Health, and Justice, invoices from advertising agencies contained the contractor's certification as required by the contracts.

4.63 We found that National Defence had taken several measures to correct significant problems identified in 2003 by an internal audit of contracting for advertising services. For example, it now ensures that production estimates are signed by the head of operations after review by project officers. To help project officers assess the accuracy of production estimates and challenge them if necessary, the Department conducted a "job shadowing" experience, taking staff to the advertising agency's premises to become familiar with each step of the production process. We saw evidence that invoices had been revised following challenges by the Department.

4.64 National Defence also adopted a system to track estimates against invoices. It has provided advertising training to its staff and, at the time of our audit, four employees had just completed the Communications and Advertising Accredited Professional (CAAP) program and obtained certification.

Poor management of contractual arrangements

Canada Mortgage and Housing Corporation's arrangements with CCSB (PWGSC)—1998 to 2001



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

In 1998, Canada Mortgage and Housing Corporation (CMHC) needed to obtain the services of an advertising agency. Its Vice-President for Communications, who previously had worked at the Canada Information Office (CIO), suggested that CMHC ask CCSB to obtain the needed services on CMHC's behalf. This was thought to be an efficient way to proceed, as CMHC's own procurement function had been downsized.

Except in one case, CCSB chose the agencies to supply advertising services for CMHC. None of the agencies had been properly pre-selected through CCSB's selection process. From 1998 to 2001, CMHC used Vickers & Benson, Gosselin Communication, Groupaction Gosselin, and Groupe Everest.

In this arrangement, CMHC took the highly unusual step of transferring money to CCSB. In return, CCSB contracted with each advertising agency to deliver goods or services directly to CMHC and to invoice CCSB. In nearly all cases, based on CMHC's initialling that goods had been received, CCSB approved the payment of invoices and was then responsible for forwarding payments to suppliers.

This was an unusual arrangement, with CCSB an intermediary who contracted with the supplier and facilitated payments on behalf of CMHC. Normally a supplier and purchaser sign a contract once the supplier is chosen, and CCSB's involvement ends. However, in this case CCSB contracted with the supplier. The contract contained terms and conditions with which the supplier had to comply. However, the specifics of what was to be delivered were detailed in a statement of work negotiated between CMHC and the supplier.

There were six such contracts between CCSB and four advertising agencies from 1998 to 2001. CMHC paid CCSB about $2.4 million.

We noted two cases where CCSB had the contract and CMHC had the statement of work but neither had both, in effect separating the responsibilities of purchaser and contractor. In the four other cases, CMHC told us it had ensured that goods and services had been received in accordance with the statement of work.

The separation of the purchaser's role from the contractor's role resulted in the following problems:

- CMHC monitored goods and services received according to the statement of work but did not have a copy of CCSB's contract with the agency. CCSB officials approved payments under section 34 of the *Financial Administration Act* on the basis that CMHC was satisfied with what it had received from the supplier. However, neither CMHC nor CCSB was in a position to certify that goods and services received were consistent with the terms and conditions of the contract.
- When CMHC required additional work or when meeting contract terms and conditions caused fees to exceed the contract value, it forwarded more money to CCSB. However, it did not amend the statement of work and CCSB failed to amend the contract. Therefore, the written contract no longer accurately reflected what was required of the contractor.

Poor management of contractual arrangements (continued)

- CMHC made the final payment directly to Vickers & Benson although it had no contract with them, having established this arrangement whereby CCSB contracted with its suppliers. Therefore, CMHC had no basis for making the payment.
- We observed that CMHC advanced CCSB $250,000 in September 1999, but CCSB did not pay some Groupe Everest's invoices until May 2001. There was no requirement for CCSB to account for how it spent CMHC's money. CMHC told us it checked goods received against invoices. We are concerned that CCSB was circumventing the appropriation process by collecting money in one year and disbursing it in another year.
- We observed that Groupaction Gosselin Communication (GGC) charged fees based on the number of orders and a 10 percent markup on promotional items that were not specified in the contract with CCSB. However, we saw no evidence that CMHC checked the invoices against the contract terms before giving CCSB approval to pay.
- Contracts were not set up properly to reflect the true value of work. We found that CCSB had three contracts with Groupe Everest from 1999 to 2001, totalling $676,000 (excluding GST). CMHC paid more than $836,000 (excluding GST) above the value of these three contracts with no amendment of the contracts by CCSB.

The selection process in this arrangement was flawed, contractual arrangements were problematic, and accountability and transparency were lacking. CMHC did not explain why it chose to pay CCSB rather than to contract directly with the supplier. CMHC informed us that this arrangement resulted in increased administrative burden and effort. In 2001, it reviewed its approach to advertising contracts and stopped using this type of arrangement. CMHC contracted with its own advertising agency through a competitive process and currently contracts directly with the supplier and pays the supplier directly.

4.65 The selection processes conducted by CCSB in mid-2001 for the Department of Finance and for CMHC appeared to be more rigorous than in the past. Files were better documented, and the duration of the assignment was mentioned in the request for letters of interest. In addition, CMHC concluded a more detailed agreement with its agencies Gervais, Gagnon Associés Communications, and Publicité Martin Inc., with clear terms and conditions.

4.66 We found that staff in some departments did not always understand the terms and conditions of advertising contracts. However, other departments had attracted staff with significant advertising expertise, and some departments had ensured that staff undertook specialized training.

4.67 **The Canadian Tourism Commission (CTC) selected a new agency in 2002.** In November 2002, CTC selected a new advertising agency, Palmer Jarvis. We did not audit that selection process; as a Crown corporation since January 2001, CTC was subject to the requirements of its own contracting policy and not those of the Treasury Board. CTC's internal audit team reviewed the process and concluded that it "complied with CTC's contracting policy and was characterized by a high degree of competition and transparency." However, the internal auditors also identified weaknesses in the quality of the documentation rating the proposals submitted by bidders for the contract.

Departmental management of advertising campaigns

4.68 To examine how departments have managed advertising campaigns, we selected campaigns run by Health Canada, Human Resources Development Canada (HRDC), and the former Canada Information Office, now Communication Canada. The three campaigns are described in the case study on pages 16–17.

Three advertising campaigns managed by three departments

Human Resources and Development Canada

Canada Education Savings Grants 2001–02 Campaign, "First Steps"

The Canada Education Savings Grant (CESG) is a grant from the Government of Canada paid directly into a beneficiary's Registered Education Savings Plan (RESP). It was introduced in January 1998 to give Canadians an added incentive to save for their children's future education. The objective of the campaign was "to increase awareness of CESG especially among parents, increase call-to-action in order to raise the number and value of applications and ensure the visibility of the GoC as sponsor of the program." The grant program's main challenge was to attract more contributions from households with annual income of less than $60,000.

We audited the fourth year of this five-year campaign, which cost $3.8 million in 2001–02. The advertising was tied to one of the key priorities in the 2001 Speech from the Throne, Skills and Learning.

Overall, the 2001–02 advertising campaign for the Canada Education Savings Grant was a good example of commonly used practices in communications management, from inception to completion. The creative briefing to the agency was sound and based on a strategic plan prepared by HRDC in conjunction with the agency. It included an environmental analysis, a SWOT analysis (strengths, weaknesses, opportunities, threats), and a marketing plan with clear business objectives. Strengths of the campaign include the use of solid research at each step of the process. We saw a good integration of the Department's resources and its expertise in the management of public opinion research.

Files were well documented and showed the use of a disciplined and rigorous process. The development of the campaign was based on lessons learned from previous campaigns. The media plan was comprehensive and included marketing and media objectives and a summary of the targeted group's media habits. However, the objectives were stated in broad terms and could have been better quantified with specific targets measuring ad awareness, reach, and frequency in the targeted audience.

The campaign was evaluated at each stage, including testing of the concept before production. The evaluation of the campaign's effectiveness was conducted through a telephone survey of 2,000 Canadians. Of those surveyed, 39 percent claimed to have seen the commercial for the CESG; 71 percent of that group recalled the ad's main message. There was also a high recognition of the Government of Canada as the main sponsor of the ad. However, as no benchmark targets were set for the campaign, it is not clear whether the achievements described in the post-test results met the expectations for the campaign's performance.

Canada Information Office

Television vignettes 2001–02, Citizen Information Initiative

This 2001–02 television vignettes series was a sequence of three 60-second ads designed to promote government services. The full series was launched in 2000 under the Canada Information Office as part of the Citizen Information Initiative, a three-year initiative with a yearly budget of $19 million.

While broad objectives had been established for the Citizen Information Initiative ("to outline the Government of Canada's priorities and publicize government programs and services, to promote the Government's agenda by increasing awareness of the Government's services and promoting the three access channels; to inform Canadians of services offered by the Government of Canada"), no measurable objectives were established specifically for the vignettes series that our audit covered.

The vignette series was characterized by an exclusive agreement with two television broadcasters, TVA and Global.

Exclusive agreement with two television networks. The 2001–02 television vignette series differed from a normal advertising campaign. It was carried out in exclusive partnership with two private broadcasters, Groupe TVA inc. and Global Television. Communication Canada could not provide us with a signed agreement on its exclusive broadcasting arrangement with TVA and Global.

Communication Canada told us that under the arrangement, the Canada Information Office had received a $2.00 value for each dollar it invested with TVA and a $1.50 value for each dollar invested with Global. However, it could not provide any evidence on how these rates related to normal bulk discounting. Officials told us there had been no attempts to compare the rates with those that could have been obtained from other networks.

The exclusive agreement with TVA and Global included the requirement that the communications agency (Allard-Johnson) would use a specific company (JPL, a production agency related to TVA) to do the production work. This prevented the agency (Allard-Johnson) from competitively tendering this work as required by the contract. The work subcontracted to JPL without competitive bids totalled about $838,000. The decision to enter into this exclusive arrangement was not supported by any written analysis. It was impossible for us to determine why this agreement was entered into, or what benefits were received.

We found solid evidence of a careful approach to production management. Detailed production files showed meetings between the communications agency, the production house (JPL), the Canada Information Office, and the partnering departments to reach agreement on talent choices, schedules, and shooting plans for the vignettes.

Three advertising campaigns managed by three departments (continued)

However, Communication Canada could not produce any written record of having briefed the agency on any of the three vignette campaigns to describe, among other things, the specific objectives, key messages, and target audience and to give the agency clear direction on producing the concept. Officials told us they had briefed the agency through numerous meetings and telephone conferences.

We note that the Canada Information Office had not established specific objectives for each of the three vignettes in order to measure their contribution to the overall campaign. However, it carried out evaluations that showed that the vignettes series had a degree of success in meeting the objectives of the overall campaign.

Health Canada

"Light and mild" campaign of the Anti-Tobacco Initiative, 2001–02

The "light and mild" campaign, with an estimated total cost of $9.2 million, was developed after the Minister of Health challenged the tobacco industry in May 2001 to remove the "light and mild" labels from cigarette packages within the next 100 days.

The stated objectives of the first phase of the campaign were "to set stage (provide framing) for the Minister's announcement of the next steps to addressing the light and mild descriptors issues." The television campaign objective was to "bolster public support for continued federal action to address light and mild descriptors issues." The secondary objectives were to "raise awareness of the confusion caused by light and mild descriptors; raise awareness that light and mild cigarettes can deliver the same toxics in similar concentrations as regular cigarettes with the same possible results."

The "light and mild" campaign clearly was related to a key priority of both Health Canada and the federal government. We saw evidence that the development of the ad campaign followed a rational and logical approach from concept to final copy, supported by research at each stage. However, the objectives were vague and not measurable. The media plan and budget called for an average of 22 viewings by 95 percent of Canadian adults 18 and over and spending of $6.7 million over seven weeks. We saw little documented rationale or analysis to support the proposed level of saturation or the level of spending.

No one at Health Canada could tell us how the global budget for the campaign was established in the first place. Health Canada submitted no advertising plan and spending forecast to CCSB, as the government's communications policy required.

4.69 We expected to find that departments had followed the requirements of the government's communications policy and

- reflected the government's key priorities and their own program priorities in the campaigns,
- sent their advertising plan to Communication Canada,
- pre-tested and evaluated the campaigns,
- submitted their campaign proposals to the Government Advertising Committee and sought the advice of the Committee and/or the Privy Council Office during the process, and
- obtained a registration (ADV) number from Communication Canada before placing ads in the media.

4.70 We also looked for evidence that each department had followed practices commonly used in the advertising industry and

- presented to the assigned agency a creative briefing with clear and measurable objectives for the campaign, a description of the target audience, and a summary of the desired effect;
- obtained from the agency a media plan for reaching and persuading the target audience, including a budget outline, a summary of the target

audience's media habits, and a description of the effort (spending/reach) required by region, week, and type of medium;

- monitored the development of creative content, from the design of the concept through final copy and production, including testing of the advertisements; and
- evaluated the performance of the campaign in producing the expected results.

4.71 How well each organization met these criteria in managing their advertising campaigns is summarized in Exhibit 4.1.

Co-ordination of advertising activities

4.72 The Privy Council Office (PCO) advises departments and agencies on government priorities and themes to ensure that they reflect them in their strategic communications plans. As Chair of the Government Advertising Committee, which reviews and advises departments on their advertising plans, the PCO also helps to ensure that the plans are consistent with key government priorities and the government's advertising plan.

A move led by the Privy Council Office toward a corporate approach to advertising

4.73 In the 2001–02 Communications Framework and Marketing Plan, the Privy Council Office established key priorities for government advertising and provided guidelines to departments for reflecting them in their own advertising activities. It encouraged departments to focus on key priorities and to communicate them in a way that would address citizens' interests and concerns. It also called for better integration of advertising campaigns by departments.

Exhibit 4.1 How three departments managed advertising campaigns

Campaign component	Human Resources Development Canada	Canada Information Office	Health Canada
Campaign development and briefing	Well done	No documentation	Vague objectives
Media plan	Comprehensive	No rationale for strategy chosen	Several strengths but no rationale for the budget and saturation
Monitoring development of creative elements	Well done	Well done	Well done
Evaluation against objectives	Useful data, no benchmarks	Data received, no benchmarks and no objectives	Limited
Compliance with communications policy	Yes	Yes	No

4.74 The PCO measured the impact of the 2001–02 marketing plan and of major campaigns, and it integrated the results in the 2002–03 marketing plan and an annual advertising plan. It identified the need for a longer planning cycle (two years) and more systematic evaluations of advertising campaigns. In 2002, with Communication Canada, the PCO developed an advertising campaign evaluation tool to be used by all federal entities. The PCO holds monthly meetings with departmental directors general of communications to share information and good practices.

Review of major campaigns lacked transparency

4.75 The Government Advertising Committee's records of decisions from January 2001 to May 2003 show that the Committee reviewed about 100 advertising campaigns. The records suggest that in many cases, the Committee challenged departments' proposed campaigns and refused to approve their ads without specified changes. However, the Government Advertising Committee keeps no minutes of its meetings and we were provided no criteria by which it approved or rejected campaigns. Further, because what constitutes the criteria for a major campaign has not been defined, we could not determine that all major campaigns were submitted to the Committee as the communications policy requires.

Communication Canada authorized ads without the required documentation

4.76 As noted, the communications policy calls for departments to submit their advertising plans to Communication Canada (until September 2001, to CCSB), which summarizes the plans in order to assist the PCO in establishing the government's annual advertising plans. Communication Canada officials provided us with consolidated advertising plans for the last five years, but they told us that the plans were not completely reliable because departments had not always complied with the requirements.

4.77 A department that submits a major campaign for review by the Government Advertising Committee is advised verbally when it can request an ADV number from Communication Canada to place the campaign. This is a key control step to ensure that all government ads are co-ordinated and monitored centrally. Guidelines issued in 2000 listed key documents that must accompany a request for an ADV number, including results of campaign pre-testing, a complete media plan, ad samples, and production and media placement costs.

4.78 We found that Communication Canada on several occasions issued an ADV number at a department's request without having received the required accompanying documents. For example, we rarely found results of ad campaign pre-testing. Officials told us they checked mainly for evidence that the ad was in both official languages and advertised a policy, service, or program rather than promoting a minister or a department. We saw some examples of requests that CCSB/Communication Canada had denied, demonstrating a certain degree of control. To issue the ADV number for a major campaign, officials also relied on the Government Advertising Committee's verbal approval of the campaign.

Withdrawal of advertising during elections worked as intended

4.79 The government's communications policy states that federal institutions must suspend their advertising during federal general elections. Suspending all media placements for an organization the size of the Government of Canada requires a quick and well co-ordinated response to an election call. For the general election in November 2000, we found evidence that the system reacted swiftly and that ads were pulled off the air in time.

Lack of up-to-date information on the extent of advertising activities

4.80 Communication Canada maintains a database of departments' requisitions for advertising contracts. PWGSC maintains a database of the contracts. Because bills are paid by individual departments, Communication Canada's and PWGSC's databases do not have a record of actual expenditures. As a result, the available data on advertising expenditures are not reliable: they capture only the value of the requisitions of the contracts.

New measures for renewal of advertising practices

4.81 On 28 April 2003, after an extensive review of advertising practices and policies by the President of the Treasury Board and consultations with the advertising industry, the Minister of Public Works and Government Services (who is also the minister responsible for Communication Canada) announced extensive changes in the federal government's advertising practices. (See the section Treasury Board Secretariat initiatives in Chapter 3 of our Report.)

4.82 The new measures include the following:

- Eliminating long-term partnerships between advertising agencies and individual departments and using specific procurement tools according to the value of each assignment. For example, contracts for less than $75,000 would be assigned to agencies selected through standing offers; for contracts from $75,000 to $750,000, agencies would be selected from a list of qualified suppliers. Campaigns worth more than $750,000 would be subject to open competition.
- Moving from paying agencies commissions to paying hourly rates and fees, as the private sector does. Agencies no longer receive the 17.65 percent commission on subcontracted work but instead are reimbursed only for their out-of-pocket costs.
- Introducing a new scope of work and new method of payment for the agency of record, with several measures to ensure accountability and evaluation, including a formal third-party audit of the agency's performance after two years. In July 2003, the government issued a request for proposals to find a new agency of record. It included strict evaluation and audit clauses.
- Providing training for public servants in all aspects of advertising and creating a centre of expertise at Communication Canada to offer exchanges and seminars with outside agencies.

- Issuing a first annual report on government advertising, including expenditures, a review of some campaigns, and a description of the system and the roles of key players.
- Providing for an audit to be conducted in 2005.

These new measures have the potential to strengthen the management of advertising activities—only, however, if the government ensures that public servants not only understand the rules but also follow them.

Conclusion

4.83 The Communications Coordination Services Branch broke the rules in most of the selection processes that we audited. In some cases, we found no evidence that a competitive process was conducted at all. In the selection of agencies and awarding of contracts, we observed problems similar to those reported in Chapter 3 of this Report, on sponsorship: with few exceptions, the same public servants broke the same rules in awarding contracts to the same companies. In breaking the rules, CCSB did not ensure best value for the Crown.

4.84 Individual departments did not ensure that terms and conditions of the contracts were respected. Overall, we observed a lack of attention to the contracting rules and an absence of rigour in the enforcement of contract terms and conditions. Departments did not require agencies to seek bids for subcontracted work, nor did they challenge commissions charged and invoices that were not adequately supported. Departmental officials who approved payments were not provided with enough supporting documentation in many cases to adequately discharge their responsibilities under the *Financial Administration Act*. We found a wide range of practices in the way three major advertising campaigns were managed. We noted some good practices in the management of advertising contracts, demonstrating that the rules can be followed. These rules must be followed consistently.

4.85 The Government of Canada issued contracts over $435 million on media placement purchases during the five years covered by its agreement with Media/I.D.A. Vision, its agency of record. The government did not properly monitor the performance of its agency of record or audit it as required. Until the fourth year of the five-year agreement, the agency of record did not provide departments with the information they needed to properly verify individual billings. The government did not ensure that it received best value for media placements.

4.86 Key aspects of the government's co-ordinated approach to advertising appear to work. Government priorities are communicated to those responsible for developing advertising strategies. The system worked to ensure that advertising ceased when the 2000 general election was called. However, there are several areas that need improvement, particularly ensuring greater transparency and improving the quality of information available on the government's advertising activities.

4.87 The government has announced significant changes to the management of advertising activities and has started implementing them. If implemented properly, these changes could provide a basis to address the weaknesses we observed during our audit. However, adherence to the rules already in place must become a priority not only for Communications Canada but also for each government department.

About the Audit

Objectives

Our audit objectives were to determine

- whether the government has exercised adequate control over its advertising activities,
- whether the results of these activities have been measured and reported 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 the systems and practices used in managing advertising activities. We examined a risk-based sample of 14 selection processes for advertising agencies for 10 departments and 1 Crown corporation, conducted by the Communications Coordination Services Branch (CCSB) of Public Works and Government Services Canada (PWGSC) between 1994 and 2001. We examined a risk-based sample of 34 advertising contracts. We examined three major advertising campaigns.

We conducted interviews with officials in PWGSC, the Treasury Board Secretariat, Communication Canada, and in departments. We conducted our work in the following departments and Crown corporations: Canada Information Office, Communication Canada, Public Works and Government Services Canada, Canada Customs and Revenue Agency, Canadian Heritage, Department of Finance Canada, Health Canada, Human Resources Development Canada, Justice Canada, National Defence, Privy Council Office, Canadian Tourism Commission, and Canada Mortgage and Housing Corporation.

Criteria

We expected that the government would do the following:

- comply with authorities;
- ensure that advertising 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 periodic review and appropriate follow-up.

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