

## SECTION FOUR

## SUMMARY OF FINDINGS— ADVERTISING CONTRACTS

### 4.1

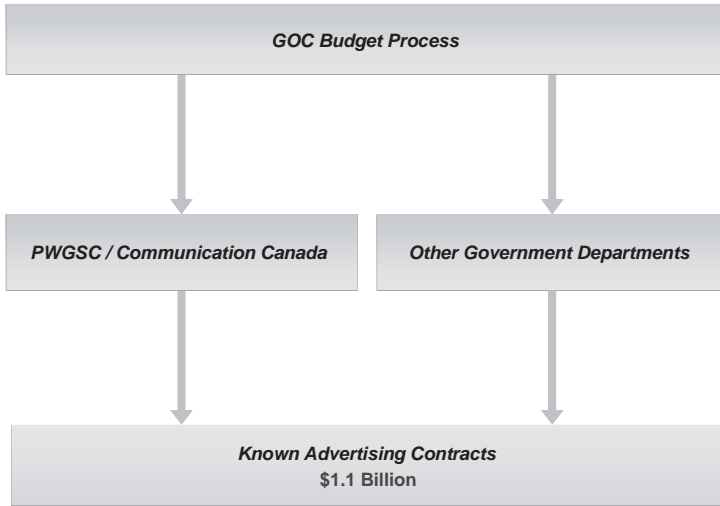
#### Source of Advertising Contract Funds—\$1.1 billion

The GOC annual budgeting process approved departmental spending authorities. These departmental spending authorities included sufficient funds to allow departments to issue contracts totaling at least \$1.1 billion for departmental advertising between April 1, 1994 and March 31, 2003. Amounts budgeted for advertising varied by department and by year depending on the initiatives to be undertaken by the department.

PWGSC managed some advertising contracts on behalf of other departments, most notably Canada Mortgage and Housing Corporation ("CMHC") and the Canada Information Office ("CIO") and received transfers of funds from those and other departments to fund advertising activities. Additionally PWGSC had amounts allocated to it for advertising as part of the annual budgeting process.

As indicated in Section 6.I, the Unity Reserve provided all of the funding for the CIO between 1996-97 and 2000-01. Therefore CIO's \$22.9 million of advertising up to fiscal 2000-01 appears to have been funded by the Unity Reserve.

**Table 12: Sources of Funds Received for Advertising Contracts**



## 4.2

### Use of Advertising Funds by GOC - \$1.1 billion

#### 4.2.1 Summary by Year

Kroll prepared a list of advertising contracts from the available PWGSC records and other documentation.

Table 13 summarizes these contracts by year.

**Table 13: Summary by Year of the Total Dollar Value of Identified Advertising Contracts Issued by the GOC (\$ millions)**

<b>Fiscal Year</b>	<b>Contracts for Media Purchases</b>	<b>Contracts for Work by Agencies</b>	<b>Total</b>
94-95	16.79	25.97	42.76
95-96	32.90	46.85	79.75
96-97	41.95	43.04	84.99
97-98	56.90	57.35	114.25
98-99	59.97	69.88	129.85
99-00	57.27	76.95	134.22
00-01	100.46	96.89	197.35
01-02	126.63	76.17	202.80
02-03	<u>101.42</u>	<u>34.33</u>	<u>135.75</u>
<b>Total</b>	<b><u>\$594.29</u></b>	<b><u>\$527.43</u></b>	<b><u>\$1,121.72</u></b>

Contracts for media purchases were, for the most part, with the Agency of Record ("AOR"). The AOR purchased media space on behalf of the GOC in accordance with a media plan developed by the communication agency.

#### 4.2.2 Summary by Department

The twelve departments listed in Table I4, accounted for 84% of the identified advertising contracts entered into by the GOC. These amounts exclude advertising initiatives totaling approximately \$29.18 million undertaken by the GOC that were funded through the SPS contracts.

**Table 14: Summary by Department of the Total Dollar Value of Identified Advertising Contracts (\$ millions)**

	<u>Media Purchases</u>	<u>for Work by Agencies</u>	<u>Total Contracts</u>
Canadian Tourism Commission	61.20	167.56	228.76
Industry Canada	51.05	72.80	123.85
Finance Canada	79.12	36.79	115.91
Health Canada	58.67	45.00	103.67
National Defence	67.38	13.83	81.21
Human Resources Development Canada	63.58	14.53	78.11
Natural Resources Canada	35.49	18.07	53.56
Canada Information Office	28.78	13.06	41.84
Justice Canada	29.94	7.98	37.92
Heritage Canada	7.78	27.87	35.65
Public Works & Government Services Canada	6.93	17.00	23.93
Canada Customs and Revenue Agency	<u>9.59</u>	<u>8.75</u>	<u>18.34</u>
	499.51	443.24	942.75
All Other Departments	<u>94.78</u>	<u>84.19</u>	<u>178.97</u>
<b>Total Contracts</b>	<u><u>\$594.29</u></u>	<u><u>\$527.43</u></u>	<u><u>\$1,121.72</u></u>

#### 4.2.3 Summary by Agency

Our review determined that between April 1, 1994 and March 31, 2003 communication agencies were involved with advertising either as the agency responsible for production or, in the case of contracts with the AOR, as the agency responsible for the media plan. Table 15 lists the total dollar value of communication agency managed contracts.

**Table 15: Summary by Managing Communication Agency of the Total Dollar Value of Identified Advertising Contracts<sup>1</sup>**  
(\$ millions)

Managing Communication Agency	Contract Type		Total Contracts
	Media Purchases <sup>1</sup>	Production and Full Service <sup>2</sup>	
Vickers & Benson	91.24	186.33	277.57
BCP	73.47	86.26	159.73
Groupaction Marketing	81.32	30.12	111.44
Allard Johnson Communications Inc.	65.00	14.98	79.98
Genesis Media (no agency indicated)	49.37	6.06	55.43
Groupe Everest	15.11	25.34	40.45
Focus Strategies	25.46	13.24	38.70
Gingko Group	15.09	10.92	26.01
McKim Communications	12.10	12.79	24.89
Bowen & Binstock	16.33	5.36	21.69
LBJ.FRB Communications Inc.	14.88	2.99	17.87
Média / I.D.A. Vision (no agency indicated)	17.13	-	17.13
Acart Communications	14.49	1.97	16.46
Palmer Jarvis Advertising	6.94	8.17	15.11
Freeman, Rodgers & Battaglia	11.53	3.33	14.86
Allard et Associés	4.28	10.51	14.79
Poirier Communications Ltd.	6.56	7.99	14.55
Scott Thornley & Co.	1.41	12.91	14.32
Ensemble Consortium (Groupaction, Vickers, Compass, Focus, Coffin)	9.33	4.20	13.53
Weaver Tanner & Miller Inc.	8.16	4.99	13.15
Vision 4 (Groupaction, Focus, Compass and Acart)	8.02	4.43	12.45
All Other Agencies	<u>47.07</u>	<u>74.54</u>	<u>121.61</u>
<b>Total Contracts</b>	<b><u>\$594.29</u></b>	<b><u>\$527.43</u></b>	<b><u>\$1,121.72</u></b>

A detailed listing of the contracts supporting Tables I3, I4, and I5 are attached as Schedules 8, 9 and I0.

<sup>1</sup> Includes contracts for media purchases for which the identified agency acted as the communication agency. The communication agency received a fee generally calculated as 11.75% of the gross value of media purchased by the AOR for the preparation of the media placement plan. The AOR received for its services, a fee of 3.25% of the gross value of the media placed. These commissions are included in the contracted amount.

<sup>2</sup> In a full service contract the communication agencies purchase the media as well as undertaking the production work. In a production contract the media purchases are done through the AOR.

## 4.3

## Analysis of Selected Advertising Contracts

## 4.3.1 Selected Advertising Contracts

Kroll selected a sample of advertising contracts totaling \$46.37 million from the years 1996-97 to 2001-02 for the purposes of reviewing invoices and underlying supporting documents in respect of billings to government departments including PWGSC. The sample represents 11% of the contracts issued during the period.

The selection of contracts chosen for detailed review included 19% of the advertising contracts issued by PWGSC and CIO. Table 16 provides a summary of the advertising contracts reviewed by Kroll.

**Table 16: Summary of Advertising Contracts Reviewed by Kroll  
(\$ millions)**

	<u>Total Contracts During the Period</u>	<u>Contracts Reviewed by Kroll</u>	<u>Percent (%)</u>
PWGSC <sup>1</sup> and CIO	61.90	11.47	19%
All Other Departments	<u>358.38</u>	<u>34.85</u>	10%
<b>Total</b>	<u>\$420.28</u>	<u>\$46.32</u>	11%

With respect to the invoices and supporting documentation, as with the SPS invoices, we noted varying degrees of detail and information contained in invoices and supporting documentation.

A detailed listing of contracts reviewed by Kroll is attached as Schedule II.

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<sup>1</sup> Including amounts contracted on behalf of CMHC.

### 4.3.2 Analysis of Agency Services Including Production Costs

Table I7 provides a summary of the results of Kroll's review of advertising contracts by type of expenditure.

**Table 17: Kroll Analysis of Selected Advertising Contracts  
(\$ millions)**

	<u>Total</u>	<u>Percentage</u>
Sponsorships	0.46	1.0%
<b>Amounts Invoiced for Work Done by Agencies and Related Parties</b>		
Agency Sponsorship Commissions	0.05	
Agency Production	0.03	
Agency Time Charges	2.88	
Agency Commissions on Subcontracted Amounts	1.92	
Amounts Subcontracted to Related Party	<u>3.46</u>	
<b>Total Invoiced for Work Done by Agencies and Related Parties</b>	<u>8.34</u>	18.0%
<b>Subcontracted to Unrelated or Unknown Party</b>		
	26.00	56.1%
Unspent Amounts or Invoices not Located	<u>11.52</u>	<u>24.9%</u>
<b>Total Contract Value</b>	<u>\$46.32</u>	<u>100.0%</u>

A summary by agency supporting this table is attached as Schedule I2.

We note, in contrast to the SPS contracts we selected for review, the agencies appear to have billed only 75% of the contract values.

With respect to the specific advertising contracts we reviewed, we noted:

- i) Several instances in which "sponsorship" money was paid;
- ii) Billing to departments for agency services based on approved estimates rather than on actual hours incurred at the agreed contract rate; and
- iii) Commission of 17.65% charged on related party subcontracts.

