

SECTION SIX

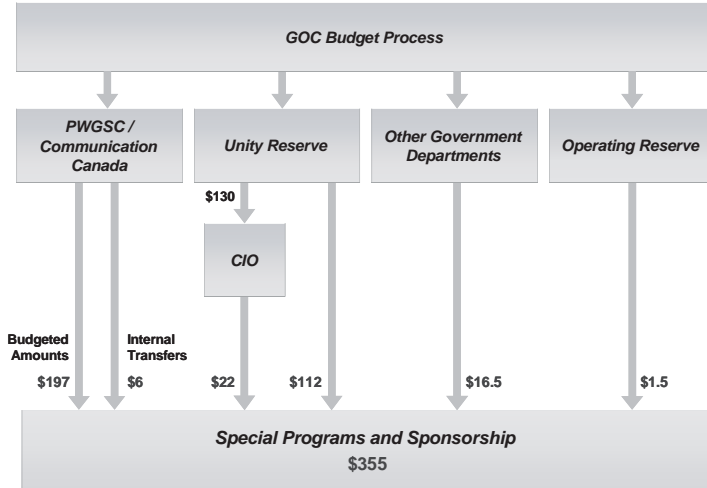
**DETAILED FINDINGS—
SPECIAL PROGRAMS
AND
SPONSORSHIP CONTRACTS**

6.1

Source of Funds

As noted in Section 3.1, our analysis of GOC funding has determined that during the period April 1, 1994 through to March 31, 2004, \$355 million was allocated and transferred to APORS/CCSB/Communication Canada for the payment of SPS contracts. The following diagram depicts the sources of the \$355 million.

Table 29: Sources of Funds Received for SPS Contracts (\$ millions)



6.1.1 Operating Budget - \$197 million

As noted in the diagram above, one of the primary sources of funding utilized for the payment of SPS contracts was funding provided in the PWGSC/Communication Canada annual budget.

Summarized below is our understanding, on an overview basis, of the yearly budget process:

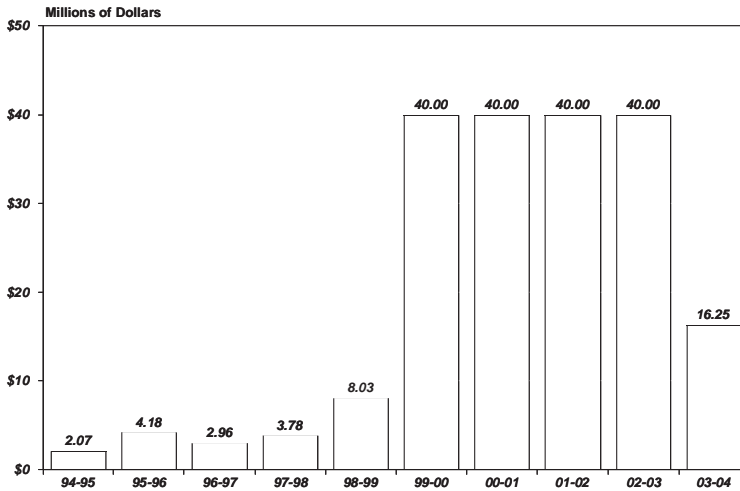
Government of Canada Budgeting Departmental Funding Process

1. In October/November in advance of the new fiscal year commencing April 1, departments make submission to the Treasury Board ("TB") seeking annual approval of departmental budgets. This process is referred to as the Annual Reference Level Update ("ARLU"). The ARLU process then provides the basis for the establishment of the Departmental Main Estimates which form part of the GOC's expenditure plan, referred to as the Budget/Fiscal Framework.¹
2. Each year Parliament approves Departmental Main Estimates which establish a departmental spending authority (votes).
3. In addition, Parliament receives "Reports on Plans and Priorities" ("RPPs") which include the individual expenditure plans for each department.
4. The amount of approved spending authority that a department utilizes is controlled by TB. For example, while Parliament may have approved \$2 billion as the departmental authority for PWGSC, TB may withhold a portion of that authority and only provide PWGSC with authority to spend \$1.9 billion. This withheld amount is referred to as a "frozen allotment."
5. We understand that based on the spending authority provided by the TB, PWGSC would establish the budget for each branch and in turn the budgets would be established for the various operations within the branch.
6. If during a year a department wishes to increase its spending authority, it makes a submission to TB. If there exists a frozen allotment of the original Parliamentary Spending Authority sufficient to satisfy the increased funding request, then a submission to Parliament is not required. If a frozen allotment does not exist, then a Supplemental Estimate is tabled with Parliament to provide the department with increased spending authority.

¹ As per TB Statement of Evidence, Exhibit P-10.

The following Table summarizes annual PWGSC/ Communication Canada operating budget funding for SPS:

Table 30: Summary PWGSC/Communication Canada Yearly Budget Funding for SPS Initiatives



The amounts identified for GOC fiscal years 1994-95 to 1997-98 represent the operating budget for "Special Programs" within APORS/CCSB included in the PWGSC Operating Budget. We have identified this amount based on an examination of accounting records related to the Special Program account.

In 1998-99, the original budget amount available for SPS was increased from \$3.03 million to \$8.03 million. This additional \$5 million was received because of a submission to TB and related Supplementary Estimate which received Parliamentary approval.

The amounts noted above for 1994-95 to 1998-99 were not specifically identified in the details of the budget included in the RPPs provided to Parliament.

For GOC fiscal years 1999-00 to 2001-02, TB Approvals indicated that \$40 million per year of funding was provided to PWGSC for purposes of SPS. This \$40 million was included in the overall budget for CCSB but the

budget for CCSB did not specifically identify or segregate the \$40 million in the yearly RPP for PWGSC which was provided to Parliament for use in approval of the overall GOC budget.

In September 2001, CCSB's functions were transferred to Communication Canada. The yearly funding of \$40 million for SPS was also transferred based on TB documentation. Communication Canada's RPP did not distinguish the \$40 million from the remainder of its planned spending identified in the RPP for 2002-03. In GOC fiscal 2003-04, the RPP provided to Parliament identified that \$30.25 million was included in the Main Estimates for Communication Canada related to contributions in support of activities and projects to increase the understanding and appreciation of Canadian identity and to develop social awareness. This amount was subsequently reduced by \$11.0 million due to the establishment of a frozen allotment by TB. The amount was then also reduced by \$3 million as the result of Supplemental Estimates which transferred the funds to a newly established Grants Program. The above adjustments resulted in the identified funding of \$16.25 million for 2003-04.

6.1.2 Intra-Departmental Transfers - \$6 million

As depicted in Schedule I to this report, during the period GOC fiscal 1994-95 to GOC fiscal 2003-04 we have identified two years in which APORS/CCSB received additional funding for SPS from other branches within PWGSC and we noted three years in which funds available for SPS were transferred to other branches within PWGSC.

In GOC fiscal years 1997-98 and 1998-99, \$2.0 million and \$8.48 million respectively were transferred from other branches within PWGSC to APORS/CCSB for payment of SPS. The above funding for both years originated from the Corporate Services Reserve Account within PWGSC. Neither Mr. Guité nor Mr. Tremblay had authority over the Corporate Services Reserve Account. Documentation available for our review for 1998-99 indicates that \$7.1 million of the \$8.48 million was approved by the Deputy Minister Ran Quail of PWGSC based on his discussions with Minister Gagliano of PWGSC.

In GOC fiscal 1999-00, \$3.075 million of the transfers from previous years were repaid by CCSB resulting in a reduction in the overall available funding for sponsorship initiatives.

For GOC fiscal 2000-01 and 2001-02 there were additional withdrawals of \$139,900 and \$1.12 million respectively of funding that were transferred out of funds available for sponsorship initiatives. Of this amount \$1.11 million was transferred to fund advertising contracts not considered part of the Special Programs account. The remaining balance was utilized to repay expenses incurred outside the Special Programs account.

6.1.3 Funds Directly from Unity Reserve - \$112 million

TB supplied an accounting for allocations from the Unity Reserve. A copy of this schedule is provided as Appendix G to this report. The TB Summary identified some \$660.1 million as having been drawn from the Unity Reserve for GOC fiscal years 1995-96 through 2001-02. Of this amount, \$111.8 million was allocated to PWGSC, via TB Submissions, for the payment of SPS.

The following table summarizes our findings related to the process under which the funds were allocated from the Unity Reserve to PWGSC for purposes of funding SPS:

Table 31: Summary of Yearly Allocations From the Unity Reserve to PWGSC for SPS Initiatives

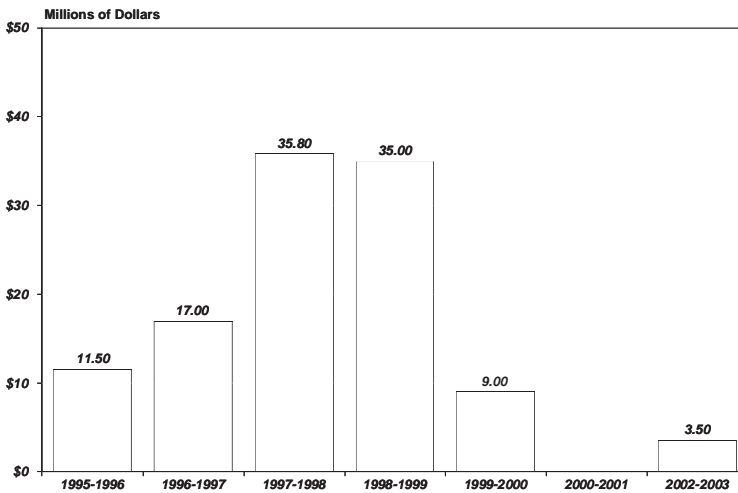
Year	Amount	Vehicle	Authorization	Comments
1995-96	\$11,500,000	Two separate submissions to TB <ul style="list-style-type: none"> • \$10 million; and • \$1.5 million 	<ul style="list-style-type: none"> • Prime Minister ("PM") of Canada¹ • TB 	<ul style="list-style-type: none"> • TB approvals indicate funding related to "Canadian unity related advertising and Public Opinion research activities"
1996-97	\$17,000,000	Single TB submission for \$17 million in 1996-97 and \$17 million in 1997-98 <ul style="list-style-type: none"> • Frozen allotment for 1996-97 	<ul style="list-style-type: none"> • PM of Canada¹ • TB 	<ul style="list-style-type: none"> • Submission identified funding requirements as related to "communications priorities of the Government of Canada." • Included list of specific projects to be funded
1997-98	\$35,800,000	Two separate submissions to TB <ul style="list-style-type: none"> • \$17 million (TB inclusion in PWGSC Main Estimates 1997-98); and • \$18.8 million (via Supplemental Estimate) 	<ul style="list-style-type: none"> • PM of Canada¹ • Parliament • TB 	
1998-99	\$35,000,000	TB approved inclusion in PWGSC's Main Estimates under "Other Operating Costs"	<ul style="list-style-type: none"> • PM of Canada² • Parliament • TB 	<ul style="list-style-type: none"> • Parliament approved Main Estimate • Funding received via 2 memoranda from the Privy Council Office ("PCO") to TB indicating PM approved allocations in the amounts of \$17 and \$18 million respectively
1999-00	\$9,000,000	TB submission <ul style="list-style-type: none"> • Frozen allotment 	<ul style="list-style-type: none"> • PM of Canada¹ • TB 	
2001-02	\$3,500,000	TB Submission then Supplementary Estimates	<ul style="list-style-type: none"> • PM of Canada² • Parliament • TB 	<ul style="list-style-type: none"> • Authorization via two PCO memoranda (\$2 and \$1.5 million respectively) confirming PM's approval
\$111,800,000				

¹ Authorization from the Prime Minister was obtained via his signature approving the TB submission.

² The Prime Minister's authorization is indicated in a PCO memorandum.

Table 32 illustrates the yearly allocations directly from the Unity Reserve to PWGSC for SPS contracts.

Table 32: Summary of Yearly Allocations Directly From the Unity Reserve to PWGSC for SPS Contracts



The TB Submissions did not describe the allocations as being for the "Sponsorship Program" but typically described the purposes of the allocations as being for the communication priorities of the GOC, including public opinion research, advertising and participation in special events related to unity and/or federal presence. In early TB Submissions (1996-97 to 1997-98), the SPS to be funded were identified in attachments to the TB Submissions.

6.1.4 Canadian Information Office - \$21.9 million

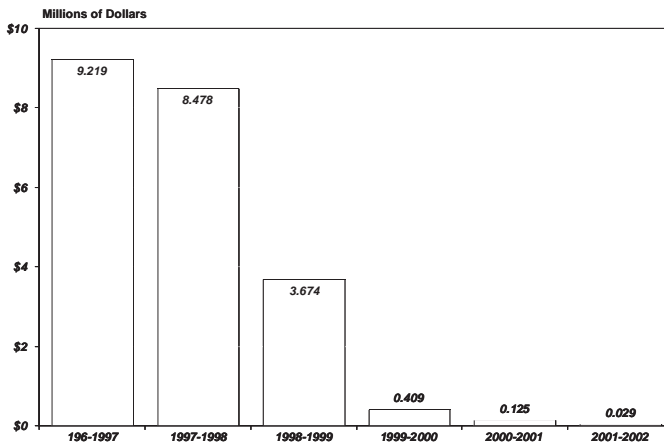
From the total of \$660.1 million identified as having been allocated from the Unity Reserve for GOC fiscal years 1994-95 through to 2003-04, \$130 million was allocated to the CIO. Based on documentation available for our review, during the years when SPS received funds from the CIO, the CIO's total operating budget was funded from the Unity Reserve.

The CIO was created in July 1996 and initially was a department included in the portfolio of the Minister of Canadian Heritage. The CIO was transferred to the portfolio of the Minister of PWGSC effective June 1998. We note the following quote from the CIO's 1999-00 RPP regarding the CIO's mandate:

"The Government of Canada has mandated the CIO to provide Canadians with information on Canada and the Government of Canada's initiatives, programs and services. To do so, the CIO helps develop and carry out projects aimed at strengthening communications between the government and citizens."

Table 33 illustrates the yearly funding provided to PWGSC by CIO with respect to SPS contracts:

Table 33: Summary of Yearly Funding to PWGSC from CIO for SPS Contracts



This funding when added with direct transfers from the Unity Reserve, indicates that in total, at a minimum, \$133.73 million of funding provided for SPS originated from the Unity Reserve. Other departments that received Unity Reserve allocations also provided funding for SPS (see Section 6.I.5).

Typically transfers from the CIO were documented via a letter of agreement between APORS/CCSB and the CIO and identified the events/activities

to be funded. The letters of agreement were typically approved by the Executive Director of APORS/CCSB (Mr. Guité or Mr. Tremblay) and the Director of Finance, Administration and Human Resources for the CIO.

When examining the supporting documentation for amounts transferred from the CIO, in fiscal 1996-97, we noted that the CIO allocated funds totaling \$3 million for seven events which were also identified in the 1996-97 \$17 million allocation to PWGSC from the Unity Reserve. This "duplicate" funding request was not identified in either the TB Submission used to obtain the allocation from the Unity Reserve for PWGSC, or in the funding sought from the CIO.

6.1.5 Other GOC Departments - \$16.5 million

Our review determined that between fiscal 1995-96 and 2002-03, SPS received approximately \$16.5 million from other GOC departments with respect to contracts/directions put in place by APORS and later CCSB. Table 34 illustrates the transfer of funds from other GOC departments to PWGSC for SPS contracts:

Table 34: Funds Received from Other GOC Departments for SPS Contracts (\$ Millions)

<i>PWGSC / Communication Canada</i>	<i>Unity Reserve</i>	<i>Operating Reserve</i>	<i>Other Government Departments</i>
			<i>Heritage Canada</i> \$8.5
			<i>Canada Economic Development for Quebec Regions</i> \$0.4
			<i>Millennium Bureau of Canada</i> \$1.6
			<i>Industry Canada</i> \$1.5
			<i>Human Resources Development Canada</i> \$1.3
			<i>Health Canada</i> \$1.1
			<i>Other / Unknown</i> \$2.1
			\$16.5
<i>Special Programs & Sponsorship</i> \$355			

The funds received from the various departments have been determined by assessing available documentation as maintained by PWGSC. Transfers from other departments were recorded as "recoveries" in the PWGSC accounting system and used as an offset against sponsorship initiatives paid for out of the Special Programs account.

The available documentation supporting the transfers is inconsistent. In certain instances the correspondence between the Department and PWGSC is available and the specific project to which the recovery relates can be determined. In other instances the internal accounting records available from PWGSC identify the source of the recovery without identifying the specific project. In other instances documents indicate that a recovery has occurred however the specific project and department to which the recovery relates are not available.

When documentation did exist regarding the transfer between the department and PWGSC, typically some explanation was provided in the letter of agreement between the department and PWGSC regarding the purpose of the transfer. For example, in 1998-99, the \$1.3 million transfer from Human Resources Development Canada is identified as relating to "research, production and media placement for the first ad of the Community Information Newspaper Program. . ." Similar justification was provided for the transfers from Health Canada of \$1.0 million and \$1.4 million from Industry Canada in the same year.

6.1.6 Operating Reserve - \$1.5 million

Within the "Fiscal Framework" of the GOC, in addition to the Unity Reserve there existed an "Operating Reserve." In December 1995, TB received a submission from PCO, Heritage Canada and PWGSC seeking as part of an overall submission of \$6 million, "an amount of \$1.5 million to fund advertising and public opinion research related to national unity and strengthening the federation" on behalf of PWGSC. The submission was signed by the Prime Minister. At the time of the TB Submission, the \$25 million in the Unity Reserve for 1995-96 was no longer available as it had previously been allocated. As a result the Operating Reserve was utilized as the source of funds for the TB Submission.

6.2

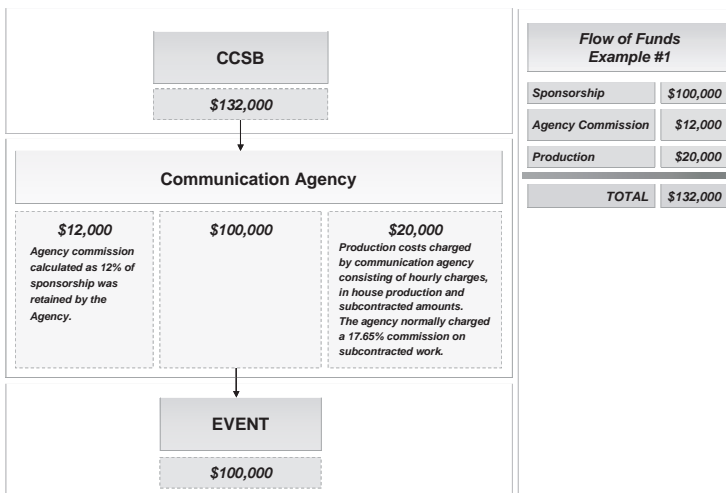
Use of Special Programs and Sponsorship Funds

6.2.1 Flow of Funds to the Agencies

Prior to April 1, 1998, SPS events were contracted between APORS/CCSB and the communication agencies.

Sponsorship contracts were signed between CCSB and the communication agency and normally included amounts for sponsorship, agency commissions generally calculated as 12% of sponsorship value, and a production budget for the agency. Contracts during this period were usually for multiple events. Table 35 illustrates the contract arrangement and flow of funds to the agency.

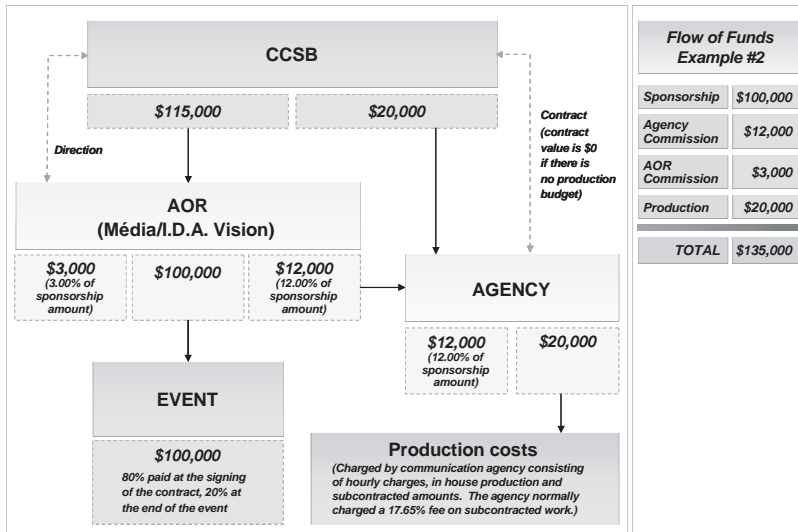
Table 35: Contract Arrangement and Flow of Funds Prior to April 1, 1998



Subsequent to March 31, 1998 an AOR became part of the SPS contracting process. Typically the AOR acted as a central purchasing agent for the purchase of media space. In February 1995, Genesis Media was chosen as the AOR for the GOC and fulfilled that role only for advertising contracts undertaken by the government.

On March 31, 1998 CCSB signed a contract with a newly chosen AOR, Média/I.D.A. Vision, to retain its services as AOR for both advertising and SPS events. Until May 27, 2002, when a temporary moratorium on sponsorship was implemented by the GOC, "Directions" were signed between CCSB and the AOR for the sponsorship value, plus the communication agency's commission (12% of sponsorship value), plus AOR commissions (3% of sponsorship value) for sponsorship in excess of \$25,000, and "Contracts" were signed between CCSB and the communication agency for budgeted production. If no production was budgeted for an event a zero dollar contract was issued to the communication agency because the agency still had responsibility to manage the event, for which it received its 12% commission. Sponsorship events under \$25,000 could be contracted directly with the communication agency without the involvement of the AOR. For such instances, the contract with the communication agency would typically include a sponsorship amount, 12% communication agency commission, and a production budget. The AOR contract arrangement and flow of funds is illustrated in Table 36.

Table 36: AOR SPS Contract Arrangement and Flow of Funds - April 1, 1998 to May 27, 2002

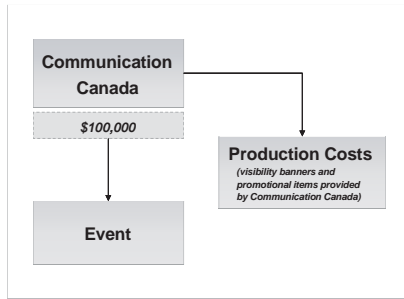


The sponsorship program was suspended between May 27 and July 2, 2002.

Between July 3, 2002, when the sponsorship program was reinstated and December 13, 2003, when the program was permanently abolished, the communication agency and AOR were eliminated from the sponsorship process and sponsorship was managed by the GOC internally through Communication Canada.

Table 37 illustrates the contract arrangement and flow of funds after July 3, 2002, when Communication Canada began managing the SPS contracts.

Table 37: Communication Canada Management of Sponsorship Began in 2002



6.2.2 SPS Contracts

We have identified contracts totaling \$332 million which have been issued for sponsorship, public opinion research, special projects, advertising, and the purchasing of promotional items. As previously stated, we have grouped these contracts together and for purposes of this report refer to these as SPS contracts. We have grouped these contracts because they were funded from resources allocated to APORS, subsequently CCSB and then, effective September 2001, Communication Canada.

The SPS expenditures were accounted for in the "Special Programs" account maintained by PWGSC prior to the transfer of CCSB functions to Communication Canada in September 2001. The Special Programs account was under the control of Mr. Guité during his tenure as the head of APORS/CCSB and later under Mr. Tremblay's control during his tenure.

These expenditures are not the same as typical GOC advertising which were contracted for by APORS/CCSB, but not paid by them. The payments for typical GOC advertising activities were approved by the GOC department for which the advertising was conducted. Section 7 of this report discusses advertising funding and expenditures.

We have compiled a detailed list of the SPS "Contracts" and "Directions" issued by APORS, CCSB and Communication Canada from 1994-95 to 2003-04. We have included this list as Schedule 2 of this report, sorted by year and contract number. Schedule 3 provides the same information sorted by agency. Our starting point was a list of 72I sponsored events (1997-01) as prepared by PWGSC, and a database (1997-04) maintained by Communication Canada.

In order to compile this list, we have relied on available information consisting of internal listings as prepared by APORS, CCSB and Communication Canada and PWGSC's copies of the "Contracts" and "Directions" issued to the agencies. To the extent that these documents did not provide enough information on the nature of services or sponsored events, reference was made to the Requisition for Goods and Services, and Construction (Form 9200) accompanying the contracts, and related correspondence located in the government files and agency files.

For the GOC years 2001-02 to 2003-04 we have prepared the list based solely on the database provided by Communication Canada.

The list presented in Schedule 2 includes "Contracts" and "Directions" starting with EN771 (for 1994-95 to 1998-99), EP043 (for 1999-00 to 2001-02) or 6C523 (for 2002-03). We understand these to represent the SPS "Contracts" and "Directions". For 2003-04 we do not have contract numbers as these were not included in the Communication Canada database.

6.2.3 Nature of SPS Expenditures

Our review of the nature of the SPS expenditures indicates funds were disbursed by the GOC for a broad range of activities and events. The description of the intended uses of the funds which were used for the SPS contracts are described in the documents noted below.

A TB Submission request signed by the Minister of Public Works and Government Services, Diane Marleau and the Prime Minister, Jean Chrétien, and approved on November 21, 1996 (Exhibit P-12(A) Tab C) noted as "Background" in Annex A that:

"The result of the Québec referendum is a clear indication that the federal government must continue to promote its programs and services. It is important that the government continue to use resources to oversee the planning, research and development of its position on all government programs and services, and that they be communicated throughout Canada."

The TB Submission requested additional resources of \$17 million for each of 1996-97 and 1997-98. Annex A noted that:

"the additional resources will be allocated in the following three areas:

- public opinion research for focus group testing, primary research and tracking initiatives;
- extend the media buys of planned campaigns to attain a greater reach and impact on the intended audience; and
- the participation in special events in the promotion of programs and services to ensure an efficient and effective federal presence throughout Canada."

Further the TB Submission "Précis" notes that:

"The Department of Public Works and Government Services Canada (PWGSC) is seeking additional funding totaling \$34M, over the next two years, to support the communications priorities of the Government of Canada.

The Advertising and Public Opinion Research Sector (A&PORS) at PWGSC is responsible for, amongst other activities, fulfilling a Government of Canada initiative to promote all its programs, policies and services by means of sponsorship through selective events across Canada. The events are determined on the basis of audience, visibility, timing and potential impact on the government's programs used at such events."

The November 2003 Report of the Auditor General to the House of Commons states that the "Sponsorship Program" was created in 1997 and that:

"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." (paragraph 3.6)

"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." (paragraph 3.7)

Our comments on each of the categories of events as identified in Table 8 in Section 3.2.3 are provided in Appendix F.

6.3

Analysis of Selected Special Programs and Sponsorship Contracts

6.3.1 SPS Contracts Sampled

As indicated in Section 6.2.2, Kroll prepared a listing of SPS contracts. This listing includes the amounts noted in the contracts for media purchases, sponsorship, agency commissions and production costs.

Of the \$332 million referred to in Section 3.2.1, \$305 million related to contracts managed by communication agencies. Table 38 provides a breakdown of these contracts by year and highlights the years from which Kroll drew its sample for detailed review.

Table 38: Summary by Year of Contract Details for Agency Managed Contracts (\$ millions)