
APPENDIX B

REPORT OF THE AUDITOR GENERAL OF CANADA

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

Overall Main Points—Chapters 3,4 and 5

- I. We found that the federal government ran the Sponsorship Program in a way that showed little regard for Parliament, the *Financial Administration Act*, contracting rules and regulations, transparency, and value for money. These arrangements—involving multiple transactions with multiple companies, artificial invoices and contracts, or no written contracts at all—appear to have been designed to pay commissions to communications agencies while hiding the source of funding and the true substance of the transactions.
2. We found widespread non-compliance with contracting rules in the management of the federal government’s Sponsorship Program, at every

stage of the process. Rules for selecting communications agencies, managing contracts, and measuring and reporting results were broken or ignored. These violations were neither detected, prevented, nor reported for over four years because of the almost total collapse of oversight mechanisms and essential controls. During that period, the program consumed \$250 million of taxpayers' money, over \$100 million of it going to communications agencies as fees and commissions.

3. Public servants also broke the rules in selecting communications agencies for the government's advertising activities. Most agencies were selected in a manner that did not meet the requirements of the government's contracting policy. In some cases, we could find no evidence that a selection process was conducted at all.
4. The government's communications policy states that federal institutions must suspend their advertising during general federal elections. We noted that the policy was properly implemented.
5. Overall, public opinion research was managed transparently, with roles and responsibilities clearly defined. However, there were some cases in which departments did not establish a clear statement of the need to undertake a public opinion research project. In a small number of troubling cases, we noted that the government had failed to follow its own guidelines in effect at the time and had paid for syndicated research that monitored, among other things, voting behaviour and political party image.
6. While these chapters contain the names of various contractors, it must be noted that our conclusions about management practices and actions refer only to those of public servants. The rules and regulations we refer to are those that apply to public servants; they do not apply to contractors. We did not audit the records of the private sector contractors. Consequently, our conclusions cannot and do not pertain to any practices that contractors followed.

The Privy Council Office, on behalf of the government, has responded.

The entities we audited agree with the findings contained in chapters 3, 4, and 5. Our recommendations and the detailed responses follow.

Recommendations

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

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

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

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

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

- any operating units established to undertake new activities do so with proper control, accountability, and transparency;
- public servants discharge their contracting responsibilities in a manner that complies with the Government Contracts Regulations and Treasury Board policies and that Public Works and Government Services Canada complies with its own policies and stands the test of public scrutiny in matters of prudence and probity, facilitates

access, encourages competition, and reflects fairness in the spending of public funds;

- parliamentary appropriations are respected;
- any transfers of funds between government entities are conducted with transparency and efficiency;
- arm's-length relationships are maintained between Crown corporations and government departments; and
- action is taken on issues raised in any other review or investigation conducted by the government or by other agencies.

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

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

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

The government's commitments are reflected in its leadership in undertaking the Public Works and Government Services Canada 2000 internal audit of sponsorships and by acting on its findings. When it became apparent that there were further issues, the Minister of Public Works and Government Services requested that the Auditor General examine three specific contracts

awarded in 1996, 1998, and 1999. The Minister also imposed a moratorium on any new sponsorships in May 2002, and then set up an interim program to eliminate the use of communication agencies. These efforts were followed by a complete and detailed review of sponsorship program files, and remedial actions including withholding and recovering monies, in bringing issues to the attention of the appropriate authorities, and in addressing program design and management issues.

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

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

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

Beyond the other two programs, there were also recommendations made with respect to the management of public opinion research in government. Since that time, Communication Canada has been working to fulfill and to meet the recommendations of the reviews.

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

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

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

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

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

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

Chapter 3: The Sponsorship Program

Main Points

- 3.1 From 1997 until 31 August 2001, the federal government ran the Sponsorship Program in a way that showed little regard for Parliament, the *Financial Administration Act*, contracting rules and regulations, transparency, and value for money:
- Parliament was not informed of the program's objectives or the results it achieved and was misinformed as to how the program was being managed.
 - Those responsible for managing the program broke the government's own rules in the way they selected communications agencies and awarded contracts to them.

- Partnership arrangements between government entities are not unusual in programs of mutual benefit. However, some sponsorship funds were transferred to Crown corporations using unusual methods that appear designed to provide significant commissions to communications agencies, while hiding the source of funds and the true nature of the transactions.
 - Documentation was very poor and there was little evidence of analysis to support the expenditure of more than \$250 million. Over \$100 million of that was paid to communications agencies as production fees and commissions.
 - Oversight mechanisms and essential controls at Public Works and Government Services Canada failed to detect, prevent, or report violations.
- 3.2 Since Communications Canada's creation in September 2001, there have been significant improvements in the program's management, including better documentation and more rigorous enforcement of contract requirements.

Background and other observations

- 3.3 A new sponsorship program has been announced that, if properly implemented, will improve transparency and accountability. For example, the program will be delivered using contribution agreements with event organizers directly rather than contracts with communications agencies. Whatever mechanisms are used, Parliament needs to be assured that public funds are being administered in compliance with the rules and in a manner that ensures fairness, transparency, and the best possible value for money.
- 3.4 While this chapter includes the names of various contractors, it must be noted that our conclusions about management practices and actions refer only to those of public servants. The rules and regulations we refer to are those that apply to public servants; they do not apply to contractors. We did not audit the records of the private sector contractors.

Consequently, our conclusions cannot and do not pertain to any practices that contractors followed.

The Privy Council Office, on behalf of the government, has responded.

The entities we audited agree with the findings contained in chapters 3, 4 and 5. Our recommendations and the detailed responses appear in the Overall Main Points at the beginning of this booklet.

Introduction

Origins of the Sponsorship Program

- 3.5 In November 1997, a new branch of Public Works and Government Services Canada (PWGSC) was created as a result of concerns about the federal presence and visibility across Canada, the effectiveness of the federal government's communications activities, and the need for an integrated structure to deliver those activities. The mandate of the new Communications Co-ordination Services Branch (CCSB) was to co-ordinate, promote, advise, and facilitate federal communications initiatives.
- 3.6 One vehicle for delivering that mandate was the Sponsorship Program, created in 1997. Sponsorships were arrangements in which the Government of Canada provided organizations with financial resources to support cultural and community events. In exchange, the organizations agreed to provide visibility by, for example, using the Canada wordmark and other symbols such as the Canadian flag at their events, and on promotional material.
- 3.7 Sponsorships were intended to encourage a positive perception of the government through its association with popular events and organizations in fields such as sports and culture. They would also increase the federal presence and visibility in communities across Canada. From 1997 until 31 March 2003, the Government of Canada spent about \$250 million to sponsor 1,987 events (Exhibit 3.1). Over \$100 million of that (40 percent of total expenditures) was paid to communications agencies as production fees and commissions.

- 3.8 Sponsorships were to be managed in two distinct ways, depending on their dollar value. Those valued at less than \$25,000 were to be managed only by a communications agency contracted by CCSB; for sponsorships over \$25,000, CCSB was to contract both with an agency of record to provide financial management services on behalf of CCSB and with a communications agency.
- 3.9 In March 2002, the Minister of Public Works and Government Services asked the Office of the Auditor General to audit the government's handling of three contracts totalling \$1.6 million that had been awarded to Groupaction Marketing (Groupaction), a communications agency based in Montréal. The audit report, presented to the Minister on 6 May 2002, revealed significant shortcomings at all stages of the contract management process.
- 3.10 The nature of the findings was such that the Auditor General referred the matter to the RCMP and also decided to undertake a government-wide audit of the Sponsorship Program (as well as the public opinion research and advertising activities of the Government of Canada, including those of Crown corporations—see chapters 4 and 5 of this Report).

Focus of the audit

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

- 3.12 Further, we selected a sample of transactions involving payments by CCSB to Crown entities, including Crown corporations. We audited the way both CCSB and the Crown entities managed the transactions. At the conclusion of the audit, we also interviewed two former ministers and a former deputy minister of PWGSC who had been involved in the Sponsorship Program. Further details are found at the end of Chapter 4 in “About the Audit”.
- 3.13 It must be noted that our conclusions about the management practices and actions for contracting refer to those of public servants. The rules and regulations we refer to are those that apply to public servants; they do not apply to contractors. We did not audit the records of the private contractors. Consequently, our conclusions cannot and do not pertain to any practices that contractors followed.

Observations

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

- 3.14 When it created the Sponsorship Program, the federal government did not inform Parliament of the program’s real objectives; nor has it ever reported the results. Former officials of CCSB told us that after the 1995 Quebec referendum, the government wanted to raise its profile in Quebec by sponsoring local events and so it set up the Sponsorship Program. However, we saw no such direction from the government and no formal analysis or strategic plan. In the absence of any written direction from the Deputy Minister or the Executive Committee of PWGSC and any written decision by the Cabinet or the Treasury Board, it is not clear to us how the decision to create the program was made, and by whom. Nor is it clear why the decision was not communicated in writing.
- 3.15 However, the Treasury Board approved increased funding for PWGSC’s communications activities in order to promote the government’s programs and services following the Quebec referendum. PWGSC had to ensure that initiatives conformed to Treasury Board policies and guidelines; that all communications services would be competitive, as required; and that contracts would be issued appropriately.

- 3.16 We found that PWGSC failed to ensure that before allocating funds, it had established an adequate control and oversight framework for the Sponsorship Program. Even though communication was a ministerial priority, the *Financial Administration Act* still applied.
- 3.17 We were informed that the program was promoted in Quebec but not elsewhere in Canada. As people outside Quebec became aware of the program, the government received some applications and approved some sponsorships of some events in other provinces. However, from 1997 to 2000, the vast majority of regional events sponsored were in Quebec.
- 3.18 We reviewed PWGSC's performance reports. None of them mentioned the program until 2001, even though sponsorships accounted for more than half of CCSB's annual spending. The 2001 *Performance Report* discussed the Sponsorship Program but made no reference to its objectives and its emphasis on events in Quebec. It simply stated that 291 events had been sponsored across Canada. Parliament was not informed that the primary focus of the program was on Quebec.
- 3.19 Given the importance of the objectives described to us by officials and the significance of the program's spending (more than \$250 million from 1997 to March 2003), we would have expected the government to provide Parliament with at least a description of the program, its objectives, its expenditures, and the results it achieved.

Program controls and oversight

Few people involved in delivering the program

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

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

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

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

Weak control environment

3.22 In *Results for Canadians*, the management framework for the federal government, the Treasury Board states that departments and agencies are responsible for ensuring that they have adequate management frameworks

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

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

Lack of transparency in decision making

- 3.24 To understand how decisions had been made, given that they were rarely documented, we interviewed staff who had been involved in the Sponsorship Program. Apparently only a handful of people had participated in decision making, and those who remain at PWGSC, Communication Canada, and other government departments were unable to tell us why certain decisions had been made.
- 3.25 They noted that the Executive Director had discussed sponsorship issues with the Minister. A retired Executive Director told us that his discussions with the Minister were only to provide information. He said

that he and his staff had decided what events would be sponsored and at what level. He told us that he had also relied on verbal advice from a communications agency but had not documented that advice.

- 3.26 The former Minister stated that his office had not decided which events to sponsor. He confirmed that there had been no written objectives or guidelines but also stated that the program had been part of the national unity strategy.
- 3.27 We found a memo in one file indicating that the Minister's office had overturned a decision by program staff not to sponsor an event; the memo said the Minister's office would inform the event's organizer. The file did not show who in the Minister's office had made the decision and why, or how the level of sponsorship funding had been determined.
- 3.28 Another recipient of funding said his request had been denied initially. At the Executive Director's suggestion, he discussed the matter with the Minister's office. The decision was reversed, and funding was approved. We found no documentation in the files to support this change of decision.
- 3.29 It is clear from our discussions with a former Minister and the retired Executive Director that there were discussions from time to time between the Executive Director, the Minister, and the Minister's staff. The absence of documentation prevents us from determining the extent or the appropriateness of those discussions; the files did not indicate their results.

Sponsorship funds to Crown entities

Transactions designed to hide sources of funding to Crown entities

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

- 3.31 We also audited transactions involving Canada Lands Company Limited/Parc Downsview Park Inc. and the Royal Canadian Mint. In these two Crown corporations and in the National Arts Centre and the National Capital Commission, we noted no significant observations to report to Parliament.
- 3.32 Through an order-in-council, we were able to audit selected sponsorship transactions at Canada Post Corporation. However, our Office did not audit the sponsorship/marketing program of Canada Post Corporation in its entirety. Given the nature of our findings in a small sample, we have suggested to Canada Post Corporation that it undertake an audit of its full sponsorship/marketing program and report the results of the audit to its Board of Directors.
- 3.33 In addition, we audited transfers of money by CCSB to other federal entities.
- 3.34 Partnership arrangements between government entities are not unusual in programs of mutual benefit. Normally an agreement states the roles and responsibilities of each entity, the limits of its financial commitment, and the benefits it expects to achieve. The required funds are usually transferred between entities through a journal voucher or paid directly by cheque.
- 3.35 Many of the transfers by CCSB to Crown entities were made through communications agencies, who were paid commissions to move the money. We believe that none of the agencies was selected properly, and in many cases there is little evidence of the value the Crown received.
- 3.36 Our audit found that CCSB had no agreements or partnership arrangements with the Crown corporations whose programs it sponsored. It used highly complicated and questionable methods to transfer sponsorship funds. Some payments were based on artificial invoices and contracts; others were subsidies—sponsorship money used by the Crown corporations to cover their normal operating costs.
- 3.37 CCSB made payments to Crown corporations through communications agencies with whom it had to contract, rather than transferring the

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

- 3.38 The Treasury Board's Policy on Transfer Payments stipulates that "where a department is considering a grant, contribution, or other transfer payment to a Crown corporation... , there must be prior consultation with the Treasury Board Secretariat... to ensure that a grant, contribution or other transfer payment is not, and does not become, a substitute for financing a corporation's operating or capital requirements."
- 3.39 Irrespective of the transfer mechanism used, almost none of the Crown corporation transfers were supported by a business case. CCSB should have sought appropriate legislative authority and transferred the funds directly, by means of a contribution agreement. This would have eliminated the payment of significant commissions and would have required that CCSB obtain authority from the Treasury Board to make the transfers. Treasury Board Secretariat's officials stated that since the money was transferred using a contract, the transfer payments policy is not the applicable audit standard for the Sponsorship Program. However, in our view, the policy not only covers grants and contributions but also "other transfer payments." In our opinion, CCSB violated the intent of the transfer payments policy.

Questionable value for money

- 3.40 In exchange for receiving sponsorship funds, Crown corporations and departments were to provide visibility for the Government of Canada. In 1998, the Treasury Board's policy on the Federal Identity Program was amended to require Crown corporations (which previously had been exempted) to apply the Canada wordmark prominently on all their corporate identity applications. Given that requirement, we question why

CCSB needed to pay Crown corporations for providing visibility, particularly in those cases where we found no documented evidence of any additional visibility purchased with sponsorship funds.

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

The transactions with Crown entities are cause for concern

- 3.42 Our work indicates that the Sponsorship Program was used mainly for community, cultural, and sports events. However, as the case studies show, it was also used for funding certain other events, television series, commercial activities, and capital acquisitions by Crown entities, including Crown corporations.
- 3.43 Communications agencies were paid significant commissions by CCSB to simply deliver cheques to the corporations. Many of the transactions we examined had violated one or more of the Government Contracts Regulations, the *Financial Administration Act*, financial and contracting policies of Crown corporations, and the intent of the Treasury Board’s Policy on Transfer Payments.
- 3.44 What is particularly disturbing about these sponsorship payments is that each involved a number of transactions with a number of companies, sometimes using false invoices and contracts or no written contracts at all. These arrangements appear designed to provide commissions to communications agencies, while hiding the source of funds and the true nature of the transactions. The parliamentary appropriation process was not respected. Senior public servants in CCSB and some officials of the Crown corporations were knowing and willing participants in these

arrangements. The former Minister of Public Works and Government Services told us he was aware that CCSB's Executive Director had entered into transactions with the Crown corporations; the Executive Director had informed him that moving money between entities in this way was appropriate.

Mismanagement of sponsorships

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

Widespread failure to comply with contracting policies and regulations

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

3.47 Those who managed the Sponsorship Program were responsible for

- complying with the *Financial Administration Act*,
- exercising due diligence in selecting events for sponsorship and determining the level of financial support to each,
- ensuring that the process of selecting and awarding contracts to communications agencies complied with the government's policies and regulations on contracting,
- enforcing the terms and conditions of the contracts, and
- ensuring that the government received the best possible value for the public funds it spent.

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

Selection of communications agencies broke the rules

- 3.49 Section 5 of the Government Contracts Regulations requires the contracting authority to solicit bids before entering into any contract; competitive bidding should therefore be the norm.
- 3.50 The Sponsorship Program used communications agencies from three pre-established lists of qualified suppliers identified in three separate selection processes (for details see section "Selection of agencies" in Chapter 4).
- 3.51 In the first process, five firms were selected in early 1995 to provide advertising services to the Advertising and Public Opinion Research Sector (APORS) of PWGSC. However, the selection process did not comply with the Government Contracts Regulations. We saw no evidence that the specific requirements of the work were ever advertised or documented. The selected firms had been identified earlier in a selection process for other work in another department. Other potential suppliers were never given a chance to compete for this work.
- 3.52 In the second selection process, carried out in 1995, a consortium was selected to provide a complete range of advertising services. In the third process, in 1997, 10 companies were selected to develop and administer national or regional marketing campaigns to supplement advertising initiatives. Many of these companies were later awarded contracts to manage sponsorship events.
- 3.53 In each of the latter two selection processes, the government posted a letter of interest on MERX, its electronic bidding system, to inform suppliers about its needs and allow them to apply as potential suppliers.

In each case, the letter of interest did not specify in what period the services were needed, which of the stated requirements were mandatory and which would be rated, and how the suppliers would be selected or the pass mark (score) they had to obtain. All of this information was required under CCSB's own procedures.

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

Selection of the agency of record contravened contracting rules

- 3.55 In March 1998, the government contracted with a firm to be its agency of record and provide financial management services for sponsorships. Again, the letter of interest was posted for less than the 30 days required by the Contracting Policy, Appendix Q. It did not say when the services would be required, what the mandatory and the rated requirements were, and how suppliers would be selected or the score they would need to be considered in the next stage of the selection process.
- 3.56 The company chosen was given a contract for the next five years to act as sole purchaser of all media placements that the government needed to support its advertising activities. The advertising aspects of this contract are addressed in Chapter 4 of this Report.

Contracts awarded for specific events without following contracting policies

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

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

Lack of due diligence in selecting and approving events to sponsor

- 3.59 We expected that in recommending an event for sponsorship, program staff would indicate how the event would contribute to achieving the program's objectives. We expected to find analyses showing that program managers had assessed proposed events for their potential to provide federal visibility and presence and that they had recommended sponsorship funding at a corresponding level.
- 3.60 Most of the 53 files in our audit sample contained no assessment of the project's merits or even any criteria for assessing merit. No file contained the rationale supporting the decision to sponsor the event. Furthermore, in 64 percent of the files we reviewed, there was no information about the event organizers, no description of the project, and no discussion of the visibility the Government of Canada would achieve by sponsoring the event.
- 3.61 We found a list of events that CCSB had declined to sponsor, but its officials informed us that no files had been maintained on declined projects so we could not determine why the requests for sponsorship funds had been declined. We noted seven projects that had been declined initially and were later approved—but the files contained no reasons for the changed decisions. In one case a soccer team, Impact de Montréal, received \$150,000 in sponsorship funds for its indoor season in 1998-99. The following year, an almost identical proposal from the Edmonton Drillers Soccer Club was declined on the grounds that no funds were available. After the Minister of Public Works and Government Services was contacted by a member of Parliament and by the Edmonton Drillers, a sponsorship of \$30,000 was approved. The Montreal team received \$30,000 in sponsorship funds that year as well.

- 3.62 Some aspects of this case are troubling. First, given that a note in the file said the Edmonton proposal was initially declined because no funds were available, it is not clear why funds were available for other projects that were approved at that time.
- 3.63 Second, while it is clear that the Minister was approached, there was little evidence that new facts were provided or additional criteria used to support a reversal of the initial decision.

No analysis of sponsorship amount for each event

- 3.64 We expected files to be properly documented and, as recommended in the government's contracting policy, to provide a complete audit trail containing details on matters such as options considered, decisions, approvals, and amendments to contracts. In addition, the Supply Manual of PWGSC states that a current file on a contract serves as a historical record and an accurate audit trail in the event of a financial review, subsequent legal action, or an official complaint.
- 3.65 In the sample of sponsorship files that we audited, not one had any documented rationale to support the level of funding approved; nor, in fact, was there a record of any discussion at all about the level of funding (see "Tour Cyclist Trans Canada").

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

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

- 3.67 CCSB's contract with each communications agency for one or more sponsorship projects specified that the communications agency was to submit details of a visibility plan, execute the sponsorship agreement with the event organizer, monitor the terms of that agreement, obtain proof that the event organizer had performed according to the agreement's terms, and reconcile all relevant documentation.
- 3.68 **Absence of visibility plans.** Almost half the files in our sample contained no visibility plan describing in any detail the visibility the government could expect to gain. In one case, for example, a member of Parliament received a request for \$5,000 from a college in Quebec for financial support for its foundation. The MP forwarded the request to the Minister of Public Works and Government Services. A special assistant in the Minister's office sent the request to CCSB, which entered into a contract with a communications agency for \$5,600 that included commission fees of 12 percent. CCSB approved a visibility plan by the agency that consisted solely of putting the name of the member of Parliament on a mural in the college. In this case, the Government of Canada did not receive any visibility for the \$5,600 it paid, but the member of Parliament did.
- 3.69 **Little documentation of what was delivered.** There was little evidence that any communications agency had analyzed the results of sponsored events in our sample. Communications agencies were required to submit post mortem reports summarizing the visibility benefits, with relevant documentation, photos, and examples of visibility such as brochures and press clippings. In 49 percent of our files, there was no post mortem report and therefore no evidence that the government had obtained the visibility it had paid for.
- 3.70 In December 1996, for example, PWGSC's Advertising and Public Opinion Research Sector (APORS)—which subsequently became CCSB—signed a \$330,000 advertising contract with Groupaction to develop a communications strategy related to the new firearms legislation. APORS received invoices for the full amount of the contract and approved the payments. However, there was no evidence that APORS

received anything for the money it paid to Groupaction under this contract. The contract said this was a Justice Canada project, but Justice officials have stated that they had not requested the contract and received none of the services outlined in it.

- 3.71 In another case, a \$465,000 contract with Groupaction in April 1997 covered the sponsorship of Série Hermez Racing and Classique du Parc/Parc Équestre de Blainville, as well as advertising-related services described as Promotion de la culture canadienne française and Surveillance et documentation de sites et de groupes d'intérêts/Armes à feu.
- 3.72 Invoices were received and payments approved by APORS for the full \$465,000. However, the file contained no evidence that APORS received the deliverables specified in the contract. There was also no evidence on file to indicate how public servants satisfied themselves that goods and services had been received before approving payments.
- 3.73 Even the files that did contain post mortem reports had no evidence that CCSB program staff had compared the reported results with the objectives stated in the visibility plan. A report by a communications agency on an event in one city contained photographs of a similar event in another city. CCSB program staff did not identify the inaccuracy or ask the agency why it had used photographs of the wrong event.

Work subcontracted without competition

- 3.74 The contracts with communications agencies stipulated that before subcontracting any work estimated at more than \$25,000, the agencies were to obtain bids from no fewer than three other suppliers, firms, or individuals and submit the bids to CCSB.
- 3.75 In the 26 percent of sampled files involving subcontracts for amounts greater than \$25,000, we saw no evidence that the communications agency had solicited bids from suppliers. Nor did we see evidence of any effort by CCSB to determine that this condition had been met.

- 3.76 The contracts also state that a communications agency may not receive a commission on work that it subcontracts to a “member of the Strategic Alliance” but they did not define strategic alliance. However, an official of PWGSC told us that the expression “strategic alliance” referred to the companies that had been listed as affiliates on the agencies’ responses to the qualification questionnaire during the selection process. Over the years, communications agencies have merged, changed their names, or been bought. CCSB did not maintain up-to-date records of members of the “strategic alliance.”
- 3.77 We observed in some cases that the communications agency had subcontracted work to a company with whom it clearly had a close relationship and had invoiced CCSB for a commission. Some companies had the same address and even the same fax number. We saw no evidence that CCSB ever questioned invoices for subcontracted work before paying them. We saw no evidence that it ever attempted to require compliance with this contract condition.
- 3.78 The contracts also required that CCSB approve production costs in advance. The majority of the 53 files in our sample show that CCSB was billed for production costs and there was no evidence that it had approved the production costs in advance or subsequently verified them.
- 3.79 Furthermore, we saw no evidence that on receiving the invoices, CCSB officials had questioned the costs before approving payments or reminded the communications agency that costs were to have been approved in advance. We found a general lack of documentation of production costs. Many of the invoices for production costs lacked support such as a description of the work that had been done or the number of hours it had taken.

Contracts amended without documented support

- 3.80 We found in 21 percent of the sampled files that contracts had been amended without any explanation. As already noted, one amendment added \$400,000 to the contract four months after the event. The rationale for this amendment was stated in one line—it was for “added

visibility.” There was no evidence that CCSB had requested any added visibility, and no evidence that any had been achieved. Further, we found no analysis to support the contract’s initial value of \$1.4 million.

- 3.81 We expected that the public servants responsible for managing these files would have taken reasonable steps to protect the interests of the Crown. Those steps would have included showing due diligence in the spending of public funds, ensuring that government contracting policies and regulations were respected, and enforcing the terms and conditions of the contracts.
- 3.82 In the files that we audited, we saw very little evidence that the public servants responsible had made any such efforts.

Lack of compliance with relevant financial authorities

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

No contract or other arrangement providing for a payment shall be entered into with respect to any program for which there is an appropriation by Parliament or an item included in estimates then before the House of Commons to which the payment will be charged unless there is a sufficient unencumbered balance available out of the appropriation or item to discharge any debt that, under the contract or other arrangement, will be incurred during the fiscal year in which the contract or other arrangement is entered into (section 32).

No charge shall be made against an appropriation except on the requisition of the appropriate Minister of the department for which the appropriation was made or of a person authorized in writing by that Minister. Every requisition for a payment out of the Consolidated Revenue Fund shall be in such form, accompanied by such documents and certified in such manner as the Treasury Board may prescribe by regulation. No requisition shall be made for a payment that (a) would not be

a lawful charge against the appropriation; (b) would result in an expenditure in excess of the appropriation; or (c) would reduce the balance available in the appropriation so that it would not be sufficient to meet the commitments charged against it (section 33).

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

- 3.84 We observed that many of the files contained no signature indicating compliance with section 32 of the FAA.
- 3.85 We also noted in the sample of payments we audited that requisitions had been authorized by the appropriate financial officers under section 33 of the FAA.
- 3.86 All files contained the signatures required under section 34. However, none of the files had evidence that the signing officer had fulfilled the obligations and met the requirements of the *Financial Administration Act*. There was insufficient evidence that the work had been performed according to the requirements of the contract. For example, some payments were made on the basis of a lump sum invoice with no supporting documentation, no record of the work performed, no record of who performed the work, and no post mortem report showing that the sponsored event had taken place and that the government had received the visibility for which it had paid.
- 3.87 In our view, the public servants involved in administering the Sponsorship Program did not discharge their responsibilities with due care and diligence. There was little evidence that anyone had verified the reliability

of the data on the invoices submitted by the communications agencies. Furthermore, the files often lacked evidence showing what work the communications agencies had done and therefore had little support for invoices paid.

How was this allowed to happen?

- 3.88 We are disturbed not only by the widespread circumvention of the competitive contracting process and the consistent breaking of rules essential to ensuring the proper handling of public funds but also by the fact that this was permitted to occur at all.
- 3.89 Two factors allowed this regime of mismanagement to occur and persist over a period of several years: departmental oversight and essential controls at PWGSC were bypassed, and the role of Parliament was not respected.

Oversight and essential controls were bypassed

- 3.90 PWGSC is a large department, with annual revenues of over \$100 million, expenditures of over \$2 billion, and 14,000 employees. It is involved in many lines of business, including providing other government entities with expertise in procurement and related common services. It manages the operations of the federal treasury, including issuing cheques from the Receiver General; and it prepares the Public Accounts of Canada and the government's monthly financial statements.
- 3.91 To achieve its objectives, PWGSC has established a fairly sophisticated system of internal controls and accountability reporting. While our previous audits have found some weaknesses in contracting and other management processes, we have also found that the Department's systems of internal controls are generally reliable.
- 3.92 Throughout our current examination we were disturbed not only by actions of Sponsorship Program managers but also by the unexplained and continual failure of oversight mechanisms and essential controls to detect, deter, and report flagrant violations of rules, regulations, and policies. The funding for sponsorships came from PWGSC's

appropriations. The small number of officials in CCSB were employees of PWGSC. The authorities they exercised had been delegated to them by the Minister, through the Deputy Minister.

- 3.93 Senior officials at PWGSC have stressed to us that our observations on CCSB are not indicative of how the vast majority of PWGSC employees discharge their responsibilities. From our previous audits of PWGSC, we would agree. We have not observed such widespread violation of the rules elsewhere in PWGSC.
- 3.94 The Department has not provided us with an adequate explanation for the almost complete collapse of its essential controls and oversight mechanisms in the management of the Sponsorship Program for the four years preceding 31 August 2001. As already noted, the program consumed \$250 million of taxpayers money, over \$100 million of it paid to communications agencies in fees and commissions.
- 3.95 Once audits were begun, the problems were not difficult to find. In 2000, PWGSC's internal audit reported numerous shortcomings in the management of the Sponsorship Program. In 2001 certain improvements were carried out, including a new solicitation process and improvements in the agreement with the agency of record. A follow-up audit by PWGSC in 2002 noted that the documentation on file had improved. However, the follow-up audit did not address issues of value for money.
- 3.96 In our Report in May 2002 we raised significant concerns about three contracts relating to the Sponsorship Program. Following that Report, PWGSC undertook a review of all 721 files and examined 126 of them in detail. The work was done initially by a Quick Response Team consisting of PWGSC experts from appropriate areas of the Department.
- 3.97 That review found in most of the files significant problems with documentation, use of affiliated communications companies, overbilling, subcontracting, and potential breaches of the *Financial Administration Act*, Treasury Board policies, and departmental policies. The findings were such that the Department referred a number of files to the RCMP for

review and initiated recovery actions. At the completion of our audit, the RCMP's review was still under way.

- 3.98 In 2003, the Department retained a private sector firm of forensic auditors to do a more in-depth review of sponsorship files on I36 events. The auditors reported that in a significant number of cases, “We note what appear to be clear issues of non-compliance with either the FAA, PWGSC-delegated authorities, or Treasury Board Contracting Policies/Government Contracts Regulations. In relation to a number of events, we have noted multiple issues of non-compliance.”
- 3.99 The audit function worked to identify problems after the fact. What failed were the controls and oversight that should have prevented these problems from occurring in the first place. Although PWGSC's Internal Audit Branch published its report in 2000, some important subsequent management actions—for example, initiating recovery and referring matters to the RCMP—were not undertaken before 2002.

The role of Parliament was not respected

- 3.100 Not only was Parliament not informed about the real objectives of the Sponsorship Program, it was misinformed about how the program was being managed. The parliamentary process was bypassed to transfer funds to Crown corporations. Funds appropriated by Parliament to PWGSC were used to fund the operations of Crown corporations and of the RCMP.
- 3.101 PWGSC's 1999-2000 *Report on Plans and Priorities*, signed by the Minister and the Deputy Minister, contained the following statement about CCSB:

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

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

Recent improvements in management

Treasury Board Secretariat initiatives

- 3.103 In May 2002, the Secretary of the Treasury Board wrote to deputy ministers reinforcing the importance of respecting the provisions of the *Financial Administration Act* and the Treasury Board's contracting policies. He asked departments to undertake three specific activities in the areas of sponsorship, advertising, and public opinion research: first, to assess whether appropriate controls and procedures were in place; second, to review current contracts and ensure their compliance with the *Financial Administration Act* as well as government contracting policies and regulations; and third, to ensure that people exercising delegated authorities were properly trained and informed of their responsibilities. He also asked deputy ministers to transmit his request through their ministers to Crown corporations, asking them to conduct a similar exercise.
- 3.104 We reviewed the responses received by the Treasury Board Secretariat and they indicate that departments have started corrective action in the areas they acknowledged were weak.
- 3.105 The Treasury Board Secretariat in conjunction with PWGSC and Communication Canada also undertook a study to review the structure and design of the Sponsorship Program. That study resulted in the announcement of a new sponsorship program in December 2002 (as noted in paragraph 3.116).

Changes have been made under Communication Canada

- 3.106 In September 2001, the CCSB was amalgamated with the Canada Information Office to form Communication Canada, which assumed responsibility for the Sponsorship Program. It made a number of changes aimed at strengthening the implementation of the program, most notably creating a new management structure and program framework and new

program guidelines (effective February 2002 and revised in May 2002). Meanwhile, responsibility for contracting was transferred to the Supply Operations Service Branch of PWGSC, the main procurement arm of the Department. More significant changes were announced later and began to be implemented on 1 April 2003.

- 3.107 In May 2002, a moratorium on sponsorships was imposed in order to take steps toward improving the program. The intent was to ensure that the program could operate in the public interest and on a sound basis in the future. The moratorium was brief and, pending the results of the review, an interim program was launched using in-house resources rather than contracting with communications agencies—that is, Communication Canada entered into sponsorship contracts directly with event organizers.
- 3.108 We audited a sample of 25 project files from September 2001 to March 2003. We found that in general these files were managed better. Although in some cases its documenting of decisions was still deficient, in most files we found enough documentation to understand the rationale behind decisions to sponsor specific events. Unlike the earlier sample we audited, all of these files contained the appropriate visibility plans and post mortem reports.
- 3.109 **Some circumvention of contracting rules continued.** Communication Canada improved its documenting of the use of criteria in selecting events to sponsor. However, in the period prior to July 2002 it still had not invited the qualified suppliers on the pre-established list to submit proposals each time a contract was to be awarded. In addition, we found no evidence that Communication Canada posted an annual notice of the list of qualified suppliers or gave others an opportunity to qualify for the list.
- 3.110 However, effective 3 July 2002, the date on which the moratorium was lifted, communications agencies were no longer used as intermediaries. This was a significant change in the way the Sponsorship Program was managed.

- 3.II1 **Improvements in selecting and approving individual projects.** In the 25 files we reviewed at Communication Canada, we saw an improvement in the rationale for sponsoring events. All files contained proposals from event organizers, so we were able in every case to determine the nature of the event.
- 3.II2 **Better analysis of the level of sponsorship for each event.** Communication Canada developed an analysis sheet that considered the objectives and priorities of the Sponsorship Program, the clientele, the regional distribution of sponsorships, and the participation of other sponsors. Although there were exceptions, we did see some analysis in most of the files. For example, in some cases Communication Canada had compared an event to be sponsored with a similar event sponsored previously, as a basis for deciding what level of funding to provide. In addition, Communication Canada maintained files on projects it had declined to sponsor and included analysis to support those decisions.
- 3.II3 **Better enforcement of the terms and conditions of contracts.** The visibility plan was called a sponsorship plan in the interim program. Under Communication Canada, the sponsorship plans were based on templates prepared by Communication Canada that varied according to the amount of sponsorship money provided. This allowed for relatively consistent degrees of visibility in all events receiving similar amounts. All the Communication Canada files we reviewed included sponsorship plans, and we were able to follow the approval process.
- 3.II4 **Improved compliance with relevant authorities.** Compliance with the *Financial Administration Act* improved considerably under Communication Canada. The required certifications under sections 32, 33, and 34 of the FAA were signed off properly.
- 3.II5 In all of the Communication Canada files we reviewed, staff had waited for a post mortem report and compared the reported results with the objectives set out in the visibility/sponsorship plans before they made the final payment.

A new sponsorship program has been launched

3.II6 A new sponsorship program was announced in December 2002 by the President of the Treasury Board, the Minister of Public Works and Government Services, and Communication Canada, effective 1 April 2003. The program is now delivered through a contribution program. Its key features include the following:

- There will be no contracting with third parties.
- Payments are to be made under contribution agreements instead of contracts.
- Written guidelines will be issued for use by program staff.
- Transparency is to be achieved through nationwide publicizing of the program, its objectives, the selection criteria, the events that have been approved, and the funds each event will receive.
- Audits are to be conducted, event sites visited, and compliance with contribution agreement terms and conditions demonstrated before final payments will be made.

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

3.II7 It is important to stress that even while the previous Sponsorship Program was being mismanaged, there were sound rules in place. The *Financial Administration Act* spelled out the requirements and obligations of public servants. The government's own contracting policies articulated quite clearly the steps that public servants were to follow. Yet public servants consistently failed to follow the rules.

3.II8 While the new program may provide an opportunity to correct the weaknesses we identified, Parliament and Canadians need assurance that

this time, all of the rules will be followed.

Conclusion

- 3.119 In its 2000 *Report on Plans and Priorities* to Parliament, PWGSC stated that it was managing the Sponsorship Program in a manner that ensured prudence and probity. This was clearly not the case.
- 3.120 Until 1 September 2001, the government ran the Sponsorship Program in a way that showed little regard for Parliament, the *Financial Administration Act*, contracting rules, transparency, or value for money. There was little evidence of prudence and probity. In May 2002, the Treasury Board wrote to the departments reinforcing the importance of respecting the provisions of the *Financial Administration Act* and contracting policies and regulations. In addition, the government announced a new sponsorship program, effective April 2003.
- 3.121 Since Communication Canada was formed in September 2001, there have been significant improvements in the Sponsorship Program. The current Executive Director has informed his staff that he expects these improvements to be sustained. He has stated that a thorough internal audit will be conducted by 2005. We hope that this will indeed be a thorough and comprehensive audit, one on which we will be able to rely. We hope that the results of the internal audit will be reported to Parliament in a timely manner.
- 3.122 It remains of great concern, however, that the Sponsorship Program was ever allowed to operate in the way it did. Considerable amounts of public funds were spent, with little evidence that obtaining value for money was a concern. The pattern we saw of non-compliance with the rules was not the result of isolated errors. It was consistent and pervasive. This was how the government ran the program. Canadians have a right to expect greater diligence in the use of public funds.
- 3.123 Public servants need to ensure that funds spent on communications, whether for sponsorship or for advertising, require no less attention to the *Financial Administration Act* and no less attention to contracting rules

than all other spending of public funds, and as much concern about getting value for the taxpayer's money.

Chapter 4: 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 in "Contracts awarded without competitive bids", 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.
- 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 “Management of advertising contracts awarded by the Canadian Tourism Commission”), and in the Canada Mortgage and Housing Corporation (see case study “Poor management of contractual arrangements”).

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 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.

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 "Three advertising campaigns managed by three departments."
- 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.I.

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

Scope and approach-chapter 3 - We examined a risk-based sample of 38 project files and a random sample of 15 project files from 1997 to 31 August 2001, managed by the Communication Coordination Services Branch (CCSB) of Public Works and Government Services Canada (PWGSC); and a random sample of 25 files from 1 September 2001 to 31 March 2003, managed by Communication Canada. We reviewed the work performed by PWGSC's Internal Audit and its Quick Response Team. They reviewed 580 files and 126 files respectively. We interviewed officials of PWGSC, the Treasury Board Secretariat, and Communication Canada. We also interviewed some former officials and former ministers responsible for CCSB.

Scope and approach-chapter 4 - 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 sponsorship activities were designed to achieve expected results;
- exercise due diligence in approving individual projects;
- ensure due diligence in spending and account for public funds spent;
- have reasonable assurance that funding was used for the intended purposes;
- appropriately manage the risks inherent in third-party delivery, where applicable;
- have a clearly communicated accountability framework in place, including performance management and reporting; and
- conduct periodical review and appropriate follow-up.

Crown corporations-chapter 3

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

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

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

- comply with relevant authorities;
- ensure that sponsorship activities were designed to achieve the expected results;

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

Audit team

Assistant Auditor General: Shahid Minto

Principal: Ronnie Campbell

Directors: Louise Bertrand, Johanne McDuff, and Sue Morgan

Nadine Cormier

Andréanne Élie

Marc Gauthier

Vincent Gauthier

Roberto Grondin

Marilyn Jodoin

Joyce Ku

Lucia Lee

Rosemary Marenger

Sophie Miller

Brian O'Connell

Lucie Talbot

Casey Thomas

For information, please contact Communications at
(613) 995-3708 or
1-888-761-5953 (toll-free).

Definition:

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