



**Report to the
Minister of Public Works
and Government Services
on Three Contracts Awarded
to Groupaction**

The audit work reported here was conducted in accordance with the legislative mandate, policies, and practices of the Office of the Auditor General of Canada. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.

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Cat. No. FA3-35/2002

ISBN 0-662-66598-8





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May 6, 2002

The Honourable Donald Boudria, P.C., M.P.
Minister of Public Works and Government Services
18A1, Place du Portage, Phase III
11 Laurier Street
Hull, Quebec
K1A 0S5

Dear Mr. Boudria:

On April 2, 2002, I wrote to you to accept your request to audit three contracts related to Groupaction. My officials commenced work immediately and reviewed information provided by your officials, including the contracts themselves as well as departmental files and other documents. We also spoke with legal counsel for Groupaction to the extent necessary to understand their position on the contract requirements. We have now completed our work and enclose our report for your further action. You will no doubt want to meet to discuss our findings, and I am prepared to make myself available at your convenience.

Our work has raised serious concerns. My particular concern about the transactions we audited is the appalling lack of documentation and extensive non-compliance with government legislation, regulations, and policies that apply to financial transactions. As noted in our report, the government did not obtain all of the services for which it paid. We believe that the circumstances of the three contracts require further review and inquiry, which goes beyond the scope of our mandate.

I have therefore decided on two courses of action. First, the nature of the findings is such that I have referred this matter to the RCMP. In addition, in light of the serious nature of the audit conclusions in our report and pursuant to s.12 of the *Auditor General Act*, I have advised senior officials of my conclusions. Second, I have asked my staff to undertake a government-wide audit of advertising and sponsorship programs and contracts. We would anticipate reporting on the results of this further audit in late 2003.

Yours sincerely,

A handwritten signature in cursive script that reads "Sheila Fraser".

Sheila Fraser, FCA

Attach.

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Report to the Minister of Public Works and Government Services on Three Contracts Awarded to Groupaction

Executive Summary

We audited three contracts awarded by the federal government between 1996 and 1999 to Groupaction, a communication agency based in Montréal.

The contracts called for advertising-related services designed to increase the visibility of the Government of Canada. The contracts were valued respectively at \$500,000, \$550,000, and \$575,000.

It must be noted that our conclusions about the management practices and actions related to these three contracts refer to those of public servants. The rules and regulations we refer to in this report are those that apply to public servants; they did not apply to the contractor. Consequently, our conclusions cannot and do not pertain to any practices that Groupaction followed.

Our audit found that senior public servants responsible for managing the contracts demonstrated an appalling disregard for the *Financial Administration Act*, the Government Contracts Regulations, Treasury Board policy, and rules designed to ensure prudence and probity in government procurement.

The government files on the three contracts are so poorly documented that many key questions remain unanswered surrounding the selection of the contractor and the basis for establishing the price and scope of work for the contracts. In our opinion, the government did not receive much of what it contracted for and paid for.

In particular, we found the following:

- The documentation that Groupaction produced on the second and third contracts had similarities because the government itself called for similar work in both contracts. It is not clear why the government awarded the third contract in 1999.
- The government did not receive everything it contracted for and paid for. Key elements of what was specified in the contracts were never delivered, and no one has been able to find a report for the second contract, for which the government paid \$549,990.
- Officials approved payments for work that varied considerably from what the contracts specified. In a few cases, payments were approved with the knowledge that the requirements of the contracts had not been fully met.
- Payments were made that we were told were for verbal advice, but no such advice was either stipulated in any of the contracts or documented as having been received.

- We found that the first contract had been amended to double its value without any documentation to support the need for the amendment.
- None of the documents we examined contained any explanation of how the government had determined the need for the services or why it had decided that contracting was the best way to fill the need.
- We found no evidence that a proper selection process was followed in awarding the first contract.
- We saw little documented support for the decision to award the second and third contracts to Groupaction.
- Officials did not comply with the requirements of the *Financial Administration Act* and contracting regulations and did not verify that the amount of time billed for by the contractor was an acceptable reflection of the work that was done.

Pursuant to section 12 of the *Auditor General Act*, we have advised senior government officials of the audit conclusions in our report.

Introduction

1. On 19 March 2002, at the request of the Minister of Public Works and Government Services and pursuant to the *Auditor General Act*, we agreed to do an audit involving three contracts awarded by his department between 1996 and 1999. In early April, we informed the Minister that we would be in a position to provide him with a report on the audit by the first week of May. It was agreed that he would table the report in the House of Commons immediately after that.
2. Public Works and Government Services Canada (PWGSC) had awarded the three contracts to Groupaction, a communication agency based in Montreal.
3. All three contracts called for advertising-related services in connection with the visibility of the Government of Canada. The second and third contracts required those services for the purpose of recommending sponsorships. Sponsorships are designed to encourage a positive perception of the government, through its association with popular events and organizations in areas such as sports and culture; and to increase the federal presence and visibility in communities across Canada, through the use of the Canada wordmark at events and on promotional material.
4. The first contract, in 1996, fell under the authority of the Advertising and Public Opinion Research Sector (APORS), a part of PWGSC that was responsible for procuring a wide range of advertising, communications, and public opinion research services on behalf of federal departments and agencies.
5. In 1997, APORS was amalgamated with other sections of PWGSC and sections of the Treasury Board Secretariat and the former Canada Communications Group to form a new branch of PWGSC, the Communications Coordination Services Branch (CCSB). The second and third contracts we examined fell under the authority of the CCSB.
6. The CCSB was created in response to concerns about the loss of a federal presence and visibility and concerns about the effectiveness of communications activities, combined with the federal government's need for an integrated structure to deliver communications services. One of CCSB's responsibilities was to offer specialized, comprehensive communications procurement services to all federal departments and agencies.
7. In fall 2001, the CCSB was amalgamated with the Canada Information Office, another federal organization, to form Communication Canada. The new organization is headed by an Executive Director who reports to the Chair of the Cabinet Committee on Government Communications.
8. Communication Canada's mandate is to improve the federal government's communication with Canadians. Federal departments and agencies require permission from Communication Canada before proceeding with any contract related to public opinion research or advertising services. Once Communication Canada has reviewed their proposed projects with the

Privy Council Office, departments and agencies must then use PWGSC to contract for all public opinion research and advertising.

9. Among its activities, Communication Canada manages the federal government's sponsorship program, originally the responsibility of the CCSB's Strategic Communications Sector.

Scope and approach of our audit

10. Our audit covered the following contracts (see Appendix I):
- the first contract, for \$500,000—2 July 1996 to 31 March 1997
 - the second contract, for \$550,000—1 April 1998 to 31 March 1999
 - the third contract, for \$575,000—1 May 1999 to 31 March 2000

It also included all documentation provided to us that related to the contracts.

11. To conclude whether the three contracts had been awarded and administered in accordance with the *Financial Administration Act* and government regulations and policies and with appropriate prudence and probity, we reviewed

- how PWGSC selected the contractor and awarded the contracts;
- how the contracts were managed and administered; and
- what was contracted for and what was delivered.

12. We reviewed all files made available to us by Communication Canada and Public Works and Government Services Canada. We interviewed officials of Communication Canada and Public Works and Government Services Canada; we also interviewed key personnel who had been involved in the contracts and had since either retired or left the organization. Groupaction had offered to co-operate with the audit and decided to do so through its lawyers. We were unable to meet with or interview Groupaction officials, but we asked for and received information from the company through its lawyers.

Observations

How PWGSC selected the contractor and awarded the contracts

13. We expected to see evidence, as the Treasury Board Contracting Policy requires, of how the government determined what services it needed and why it chose contracting as the best means of acquiring the services.

14. We also expected to see evidence of a transparent and competitive process through which a company would be selected to provide these types of services. This could be done, for example, by establishing a list of qualified companies. We also expected to see evidence of the process by which the contractor was awarded each of the three contracts.

There was no documentation of how the need for the services was determined or how the price was arrived at

15. We expected that, as required by the Treasury Board Contracting Policy, contract files would provide a complete audit trail showing details of matters

such as options, decisions, approvals, and any amendments; and identifying the officials or authorities who had made them. As the Policy states, this is critically important for answering questions and evaluating the results. In addition, the Supply Manual of PWGSC states that a current file serves as a historical record and an accurate audit trail in the event of a financial review, subsequent legal action, or an official complaint.

16. None of the documents the government provided to us contained any discussion of how it determined the need for the services. There was no evidence of negotiations and very little documentation to show how the price was arrived at for any of the contracts.

17. The files contained no documentation to support the price of the first contract. For the other two contracts, the files showed that the contractor had submitted a price but not how that price had been calculated or why the government had considered it acceptable. There was no breakdown by item of the cost of work outlined in the scope of any of the contracts. We found no documentation showing that the government had questioned the price; indeed, no documentation in the government's files contained any discussion of the price.

18. The first contract was signed by the contractor on 16 July 1996 and covered the period 2 July 1996 to 31 March 1997. The initial value of the contract was \$250,000. On 17 September 1996 the contract was amended, doubling the original value to \$500,000. We found no documentation to support the need for the amendment.

19. The amendment stated that it was to allow for additional work to be done, but none was specified. We found no documentation to support the need for additional work. We saw no information describing what this additional work was to entail or indicating how the new price had been calculated.

The basis on which the contracts were awarded is unclear

20. None of the documents we received from the government included evidence of any selection process for the first contract. Nor did we see any documentation that supported the decision to award the first contract to Groupaction.

21. The government's contracting policy states that if the contracting authority creates a list of pre-qualified suppliers of a particular type of service, it must, in addition, invite all suppliers on the list to submit a proposal each time it wants to award a contract for that type of service.

22. The government ran a competitive process in March 1997 to identify 10 firms as pre-qualified suppliers of communications and advertising services for potential contracts. Government officials indicated that the government had selected Groupaction from that list for the second and third contracts.

23. However, we saw little documented support for the decision to award these two contracts to Groupaction. We saw no evidence that the other suppliers on the list had been invited to submit proposals.

24. The files showed that the second contract was awarded to the contractor personally by the Executive Director of CCSB, due to the “urgency” of the project. The file also stated that the Executive Director had waived legal and contract reviews along with contract quality control review.

25. The files showed that the Executive Director of CCSB awarded the third contract verbally. The file indicated that he gave verbal approval to start the work, and the paperwork was to follow. The file also noted that the approval had been given because of the nature of the requirement and the unusual, urgent opportunities that had arisen.

26. Section 6 of the Government Contracts Regulations (see Appendix II) contains an exception that permits the contracting authority to set aside the requirement to solicit bids on a contract if the need is one of pressing emergency in which delay would be injurious to the public interest. Section 10.2.2 of the Treasury Board Contracting Policy explains that emergencies are normally situations that are unavoidable and require immediate action that would preclude the solicitation of formal bids. Examples are actual or imminent life-threatening situations, a disaster that endangers the quality of life or has resulted in loss of life, or one that may result in significant loss or damage to Crown property. The Treasury Board Contracting Policy requires that any use of the emergency contracting exception be justified on the contract file.

27. The files had no copy of any such justification for either the second or the third contract to explain the use of the emergency contracting authority. Nor did the files contain any information indicating the nature of the emergency in either case. Officials could not recall any events that could have been considered emergencies.

28. We would have expected that the government’s files would contain proper documentation clearly supporting all decisions related to these contracts. The government’s files were so poorly documented that many key questions remain unanswered surrounding the selection of the contractor and the basis for establishing the price and scope of work of the contracts.

How the contracts were managed and administered

Payments were made that we were informed were for verbal advice, but no such advice was either stipulated in any of the contracts or documented as having been received

29. A retired Executive Director of CCSB informed us that a significant part of the total amount the contractor received under the first two contracts had paid for not only reports but also verbal advice, discussion, and strategic information provided to him about events that the government could sponsor. This retired Executive Director had left before the third contract was paid for. But he told us that he used the advice he had received before he left.

30. We found no evidence in the government’s files that related to this; there were no notes or copies of any correspondence in the files on the type or extent of information or advice received. For the most part, the files were poorly documented. The retired Executive Director of CCSB told us that this was how business was done while he was responsible for the program.

31. The requirements stipulated in the three contracts were fairly specific about the scope of the work. None of the three contracts made any specific mention of the advice the retired Executive Director said he had received, and none of the government employees we interviewed who had worked at CCSB at the time were aware of the substance of any advice. We saw no evidence of how the advice was used in either making specific decisions or developing future strategies.

Public servants showed a lack of due care and diligence

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

- a commitment for expenditures must not exceed funds appropriated for the purpose by Parliament (section 32);
- payments must be requisitioned by a minister or an authorized officer in a form prescribed by the Treasury Board and confirmed to be a lawful charge against the appropriation (section 33); and
- before payment is made for services or goods received, the responsible departmental officer must certify that the performance conditions were met and that the price charged is reasonable (section 34).

33. In our view, the public servants involved in administering the three contracts did not discharge their responsibilities with due care and diligence. Officials approved payments for work that varied considerably from the work stipulated in the contracts.

34. In addition, those who approved payments told us that they had done so in some cases without having consulted the terms and conditions of the contracts. For example, one former Executive Director informed us that he had never looked at the contract document and was not familiar with any negotiations his predecessor may have had with the contractor. Yet he had authorized payments of hundreds of thousands of dollars on the assumption that the work was satisfactory. Another former Executive Director, now retired, indicated that payments were approved with the knowledge that the requirements as written in the contracts had not been fully met.

35. The requirements and obligations of public servants in the disbursement of public funds form a vital part of ensuring that government spending complies with parliamentary authority and is consistent with stated policies of the government. We are deeply concerned that public servants approved the spending of public funds without ensuring that they had properly discharged their responsibilities as defined in the FAA.

PWGSC did not follow its own policy in delegating authority to CCSB officials

36. Public servants who approve contracts or payments must have the authority to do so delegated to them properly. Public Works and Government Services Canada has a fairly detailed, three-step process it follows in delegating that authority. First, conditional delegation is made to officers at

various levels of the Department. Second, an assessment is made of the types and levels of authority that individual officers require to carry out their responsibilities. Third, the results of the first two steps are documented for each incumbent. The approval of the superior is to be documented on a delegation form.

37. Our examination found that in delegating the authority to the Executive Director of CCSB to initiate the second and third contracts, PWGSC did not complete the second and third steps required by its own policies and procedures—that is, there was no assessment made of the authority needed by the individual and the delegation form was not signed by the Executive Director's superior. After the Executive Director retired, however, the appropriate documents and signatures were completed for the delegation of authority to his replacement.

38. Making certain that authority is delegated properly and that delegations are properly approved is an important management responsibility in ensuring proper use of public money. The required steps not carried out in this case were, and are, contained in PWGSC's own policy manual.

CCSB officials did not verify the amount of time billed for by the contractor

39. We expected to see details that the contracts required to support invoices from the contractor: who on the contractor's staff had worked on the project, how much time they had charged to the project, and what work had been done. The invoices for the second and third contracts included the required details, although the work was broken down by position and not by person.

40. Similar details supported the first two invoices for the first contract. The remaining invoices, however, stated only lump-sum amounts with no details. The first two invoices represented billings of about \$125,000; the remaining invoices amounted to about \$375,000.

41. The contracts also required the project authority to verify that the amount of time billed for by the contractor had been spent on the project and was acceptable for the work that was done. In reviewing all three contracts we saw no evidence of any such verification, and officials responsible for the contracts confirmed that no verification had been conducted.

42. Each of the three contracts specified the basis on which the government would make payments. Each contract specified an amount for professional fees and an amount for reimbursable expenses. The contracts stated that reimbursable expenses were direct costs incurred in doing the work and that only actual expenses would be reimbursed, with no profit margin allowed. Payments were to be made after the government received an invoice, and all reimbursable costs were to be supported by a receipt or other documents to justify the expense.

43. Of the estimated \$285,000 provided for in the three contracts to cover reimbursable expenses, we observed payments totalling only \$33,700 for reimbursable expenses. The remainder of the funds that the contracts

specified were to cover reimbursable expenses—more than \$250,000—was in fact paid by the government as costs of professional services.

44. We are concerned that none of the contracts were amended to reflect this change. Furthermore, by making the payments as it did, the government allowed the contractor to exceed the ceiling for professional fees and potentially to profit from a portion of the contract where no profit margin was allowed: reimbursable expenses were not to include a profit margin.

45. In our view, senior public servants responsible for managing the contracts demonstrated an appalling disregard for the *Financial Administration Act*, Treasury Board policy, and rules designed to ensure prudence and probity in government procurement.

Did the government get what it contracted for?

The first contract: Much of what the government contracted for was not received

46. The first contract, for \$250,000, called for the following:

- To provide:
 1. the necessary research;
 2. background development;
 3. market analysis;
 4. strategic plan development;
 5. liaison;
 6. ongoing regional, provincial and local contact;
 7. concept development; and
 8. strategic alliance negotiations and execution

for Québec and all Maritime provinces [related to the] strategic visibility program of the federal government.

47. The government received a formal 43-page report of the first contract, containing objectives, strategies, recommendations, and a conclusion. The objective of the report was to outline a communication strategy aimed primarily at “repositioning Canada in the minds and hearts of Quebecers”[translation]. The report included specific strategies for achieving that purpose; and an annex listing 265 events in Quebec for possible sponsorship by the federal government: 27 fairs and agricultural, commercial, and industrial expositions; 65 art festivals and historical events; 29 sport and leisure events; and 144 popular festivals and carnivals.

48. We note that the report contained very little evidence of the market analysis and strategic alliance negotiations and execution stipulated in the contract.

49. The report contained no information about events in the Maritime provinces. Groupaction told us that it had dropped any work on the Maritime provinces, at the request of public servants. The report contained no rationale for this exclusion. Further, the government has provided us with no documentation to support the exclusion.

50. The contract was never amended to reduce the scope of the work. As we have already noted, however, an amendment was put through on 17 September 1996 to raise the contract price from \$250,000 to \$500,000. In effect, the value of the contract was doubled while less work was done than originally contracted for.

51. In its report, Groupaction wrote that it was also providing an electronic database to the government with the list of the 265 events. Government officials have told us that they are unable to locate the database.

The report for the second contract still has not been found: Whether the government received what it contracted for cannot be determined

52. The second contract, for \$550,000, called for the following:

- To prepare an analysis of opportunities related to the visibility program of the Government of Canada with respect to cultural and sport activities, not excluding motorized sports; and
- To carry out analysis and qualitative research on important targets of communication

with a view to recommending sponsorship projects for the Government of Canada or Crown corporations.

53. Neither the government nor the contractor has been able to locate a report for the second contract, for which the government paid \$549,990. To date, it has provided us with two versions of “reconstituted working papers” (see the box on page 11). In our review of government files, we saw no evidence that the reconstituted working papers had been received by the government any earlier than 19 March 2002. By that time, of course, the contract had expired. The most recent version, dated April 2002, contains seven sections described in its table of contents as the following:

1. A 38-page executive summary describing three target audiences—people aged 18 to 24, women, and people aged 65 and over
2. A list of 82 sponsorship proposals made to the contractor
3. A list of 47 sponsorship projects with analyses of opportunities
4. A list of 53 project names that had been discussed with government officials
5. A list of events, by region (Quebec only)
6. An update of events in Quebec, with information about attendance and private sector sponsors
7. A printout of two databases of potential partners in the private sector (September 1998)

54. The 38-page executive summary shows evidence of a qualitative study, as specified in the contract, carried out to identify and analyze the behaviour of various target groups using seven indicators such as attitudes, main preoccupations, political cynicism, and satisfaction. However, the documents provided to us do not include the qualitative study itself. The executive summary also includes the results of the analysis and some general recommendations.

55. The reconstituted working papers provide evidence of some analysis of opportunities for proposing federal sponsorship of sport and cultural activities.

56. For each of the sponsorship proposals made to the contractor by event organizers (actually 79 were provided, not 82 as stated in the table of contents), there is a page to a page and a half containing a very short description of the project, brief comments on visibility, and in most cases a dollar amount for the possible sponsorship.

The second contract (1998–99): Reconstituted working papers were all we could examine

On 14 March 2002, staff of the Minister of Public Works and Government Services released documents related to contracts that Public Works and Government Services Canada (PWGSC) had awarded to Groupaction.

The documents had been provided to Communication Canada by Groupaction at the request of PWGSC officials. The officials had been unable to find a copy of any report for the second contract, which was needed to respond to a request under the *Access to Information Act*.

Following the release of the documents, questions were raised in the House of Commons and in the media as to whether the government had paid for the same report more than once.

On 18 March 2002, Groupaction stated in an affidavit related to the second contract that the documents it had sent to Communication Canada had been retrieved from the hard disks of the computers used at the time. Groupaction later explained to us that copies of a number of computer files and of certain documents related to sponsorship files had been gathered together hastily.

Officials at Communication Canada told us that in keeping a commitment to release information to the public quickly, they had not had time to do a detailed review of the files received from Groupaction.

On 21 March, at the beginning of our audit, officials at Communication Canada sent us a new package of documents. They had received the package from Groupaction on 19 March.

Groupaction explained to us that the package was not the report itself but a reconstitution of working papers from 1998–99. They had been reconstituted with the help of former employees who had managed to find additional files on the hard drives of old computers.

We compared the contents of the package with what the Minister's staff had earlier released, and we found the following:

- The documents released by the Minister's staff contained material on sponsorship events outside Quebec as well as events in Quebec. However, the package forwarded to us by Communication Canada contained only material on events in Quebec.
- The package forwarded to us by Communication Canada included a 38-page executive summary discussing important target audiences for communications, as well as a description of the status of sponsorship projects at December 1999 (approved, refused, or pending). Neither the executive summary nor the status of projects at December 1999 had been included in the documents released by the Minister's staff.

On 22 April, Groupaction sent us a new reconstitution of working papers related to the second contract, specifying that the package still did not constitute the report for the contract. It said that further research had made it possible to add working documents to those it had already sent and that this second package was a more complete reconstitution.

In this second reconstitution, we found three significant differences from the first:

- The information on the status of projects to December 1999 was no longer included in the package. (The contract's termination date was 31 March 1999.)
- The second package contained printouts from two September 1998 databases of potential sponsorship partners in the private sector.
- The second package had information on 47 sponsorship projects, compared with 34 in the first package.

57. For each of the 46 sponsorship projects (not 47 as stated in the table of contents) there is a summary of the project, a dollar amount for sponsorship, analysis of benefits and visibility, and in 28 cases a section on “recommendations.” We found that these were not explicit recommendations but rather mainly comments, such as “good visibility,” “very popular with the Quebec public/over 800,000 spectators each summer,” and “a golf tournament with the biggest Canadian and U.S. golfers.”

58. Although the reconstituted working papers provided to us by Groupeaction on 22 April suggest that the contractor did a considerable amount of work, the absence of formal sponsorship recommendations in the working papers and the absence of a final report preclude us from providing any assurance that the government received all the services it contracted for in the second contract. In the absence of a final report, it is also impossible to determine how much of the information contained in the working papers was provided to the government at the end of the contract.

The third contract: Much of what the government contracted for was not received

59. The third contract, for \$575,000, called for the following:

- To prepare services of qualitative research to assess the impact of various sponsorships by the government of Canada in the area of “recreation, hunting and fishing”; and
- To prepare an analysis of opportunities related to the visibility program of the Government of Canada with respect to cultural and sport activities, with emphasis on outdoor participation sports, and also to prepare a series of recommendations to guide the Government of Canada in its future sponsorship investments in these sectoral activities, including Crown corporations for which it would be pertinent to participate.

60. The government received “Compte rendu de travail,” a report dated 24 April–September 1999, which contained three sections:

- a list of 69 sponsorship requests that the contractor had received from event organizers from 1 April to 30 September 1999;
- a list of 822 events and projects in Quebec, by category (cultural, sports, and so on) and by region; and
- a list of 389 events and projects in the rest of Canada, by category and by province (except New Brunswick) and territory.

The third contract was the only one for which the government received a list of events outside Quebec.

61. The report contains very limited analysis of opportunities for the federal government’s visibility program in cultural and sport activities. For each of the 69 sponsorship requests, the report gives a very brief description of the event, the date, the organizer, and the promoter; and a dollar amount for the sponsorship.

62. The report does not include any qualitative research to assess the impact of various sponsorships by the federal government in the area of recreation, hunting, and fishing, as required by the contract. Nor does it contain any written recommendations to guide the government in its future sponsorship investments, as also required by the contract. We saw no amendment to the contract to support this change in the scope of work.

63. In summary, we saw very little evidence in the report that all significant contract requirements were met.

There were similarities between the second and third contracts and it is unclear why the third contract was awarded

64. In March 2002, the Minister of Public Works and Government Services released to the public certain documents on the second and third contracts. At that time, questions were raised in both the House of Commons and the media that the two reports might be identical.

65. As part of our audit work, we compared the available information on the two contracts. As stated elsewhere, Groupaction prepared two versions of a “reconstituted” set of working papers, which it said reflected work it had done under the second contract. We compared the latest version with the report of the third contract.

66. We first reviewed the requirements specified in each of the two contracts. We noted that what the government contracted for in both contracts had similarities. For example, both asked for an “analysis of opportunities related to the visibility program for the Government of Canada with respect to cultural and sporting events”; the third contract asked for a particular focus on outdoor activities. Both contracts required recommendations for sponsorship by the Government of Canada or Crown corporations. The analysis of opportunities and the related recommendations represent significantly similar work requirements.

67. We then reviewed the reconstituted working papers on the second contract (see the box on page 11) and compared them with the report of the third contract. We found that both include similar information.

68. Both include a list of sponsorship events proposed to Groupaction by event organizers. The reconstituted working papers on the second contract list 79 events; the report of the third contract lists 69 events. We compared the two lists and found that about 50 percent of the events (34 of 69) identified in 1999–2000 were already among the 1998–99 sponsorship proposals, such as “Les Jeux du Québec,” “Les Championnats canadiens sur route,” and “Spectacle Notre-Dame de Paris.”

69. Both the working papers on the second contract and the report of the third contract contain a printout of events in Quebec. For the second contract, in 1998–99, the printout contains 643 events; the printout for the third contract, in 1999–2000, contains 822 events. We reviewed both and found that 272 recurring events identified in the 1999–2000 printout are also in the 1998–99 printout.

70. Given that a database of events in Quebec had already been established and provided to the government (under the first contract), and given that there is no documentation in the files of the need for the services under the second and third contracts and there are similarities in the work requirements of both, it is not clear why the government awarded the third contract in 1999—particularly, as indicated earlier, on an urgent basis.

Conclusion

71. Our objective was to determine whether the Government of Canada had awarded and administered the three contracts to Groupaction in accordance with the *Financial Administration Act* and government contracting regulations and policies and with appropriate prudence and probity.

72. It must be noted that our conclusions about the management practices and actions related to these three contracts refer to those of public servants. The rules and regulations we refer to in this report are those that apply to public servants; they did not apply to the contractor. Consequently, our conclusions cannot and do not pertain to any practices that Groupaction followed.

73. Our review of the three contracts found that senior public servants responsible for managing the contracts demonstrated an appalling disregard for the *Financial Administration Act*, the Government Contracts Regulations, Treasury Board policy, and rules designed to ensure prudence and probity in government procurement.

74. The government files are so poorly documented that many key questions remain unanswered surrounding the selection of the contractor and the basis for establishing the price and scope of work for each contract. In our opinion, the government did not receive much of what it contracted for and paid for.

75. The significant shortcomings we observed are even more troubling because they occurred in Public Works and Government Services Canada itself (APORS and then CCSB were branches of PWGSC). This Department has the overarching responsibility to ensure that all contracting services for the Government of Canada stand the test of public scrutiny in matters of prudence and probity and reflect fairness in the spending of public funds. It was the responsibility of PWGSC to ensure that appropriate oversight and control were applied to all expenditures charged to its appropriation.

76. Pursuant to section 12 of the *Auditor General Act*, we have advised senior government officials of the audit conclusions in our report.

Appendix I Details of the three Groupaction contracts audited

	The first contract	The second contract	The third contract
Duration of contract	2 July 1996 to 31 March 1997	1 April 1998 to 31 March 1999	1 May 1999 to 31 March 2000
Type of services	Advertising related services	Advertising related services	Advertising related services
Description	Visibilité Canada	Analysis of opportunities related to the visibility program of the Government of Canada	Analysis of opportunities related to the visibility program of the Government of Canada
Work requirements	<ul style="list-style-type: none"> • To provide: <ol style="list-style-type: none"> 1. the necessary research; 2. background development; 3. market analysis; 4. strategic plan development; 5. liaison; 6. ongoing regional, provincial and local contact; 7. concept development; and 8. strategic alliance negotiations and execution <p>for Québec and all Maritime provinces [related to the] strategic visibility program of the federal government.</p>	<ul style="list-style-type: none"> • To prepare an analysis of opportunities related to the visibility program of the Government of Canada with respect to cultural and sport activities, not excluding motorized sports; and • To carry out analysis and qualitative research on important targets of communication <p>With a view to recommending sponsorship projects for the Government of Canada or Crown corporations.</p>	<ul style="list-style-type: none"> • To prepare services of qualitative research to assess the impact of various sponsorships by the government of Canada in the area of “recreation, hunting and fishing”; and • To prepare an analysis of opportunities related to the visibility program of the Government of Canada with respect to cultural and sport activities, with emphasis on outdoor participation sports, and also to prepare a series of recommendations to guide the Government of Canada in its future sponsorship investments in these sectoral activities, including Crown corporations for which it would be pertinent to participate.
Basis of payment	Fixed time rate, reimbursable costs and ceiling	Fixed time rate, reimbursable costs and ceiling	Fixed time rate, reimbursable costs and ceiling
Ceiling or limitation of expenditure (without GST)	\$250,000	\$550,000	\$575,000
Amendment (17 Sept. 1996)	\$250,000	N/A	N/A
Total	\$500,000	\$550,000	\$575,000

Source: Contracts between Public Works and Government Services Canada and the contractor

Appendix II Government Contracts Regulations of the *Financial Administration Act*

Selected sections on bids

Section 5

Before any contract is entered into, the contracting authority shall solicit bids therefore in the manner prescribed by section 7.

Section 6

Notwithstanding section 5, a contracting authority may enter into a contract **without soliciting bids** where:

- (a) the need is one of pressing emergency in which delay would be injurious to the public interest;
- (b) the estimated expenditure does not exceed:
 - (i) \$25,000,
 - (ii) \$100,000, where the contract is for the acquisition of architectural, engineering and other services required in respect of the planning, design, preparation or supervision of the construction, repair, renovation or restoration of a work, or
 - (iii) \$100,000, where the contract is to be entered into by the member of the Queen's Privy Council for Canada responsible for the Canadian International Development Agency and is for the acquisition of architectural, engineering or other services required in respect of the planning, design, preparation or supervision of an international development assistance program or project;
- (c) the nature of the work is such that it would not be in the public interest to solicit bids; or
- (d) only one person is capable of performing the contract.

Section 7

A contracting authority shall solicit bids by

- (a) giving public notice, in a manner consistent with generally accepted trade practices, of a call for bids respecting a proposed contract; or
- (b) inviting bids on a proposed contract from suppliers on the suppliers' list.

Some definitions

"contracting authority" means

- (a) the appropriate Minister, as defined in paragraph (a), (a.1) or (b) of the definition "appropriate Minister" in section 2 of the *Financial Administration Act*,
- (b) a departmental corporation named in Schedule II to the *Financial Administration Act*, or
- (c) the National Capital Commission.

"suppliers' list" means a list that is maintained by the contracting authority setting out the names and addresses of suppliers from whom the contracting authority may solicit bids.