

SECTION THREE

**SUMMARY OF FINDINGS—
SPECIAL PROGRAMS AND
SPONSORSHIP**

Table 2 illustrates the framework of our findings.

Table 2: Framework of Findings

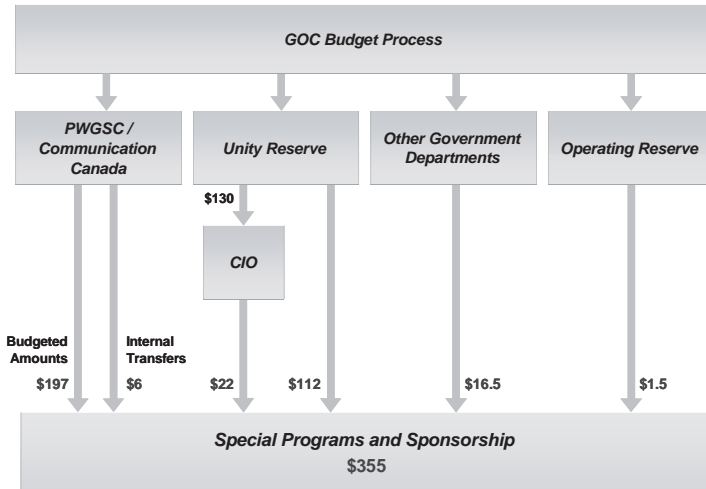
SOURCE OF FUNDS	USE OF FUNDS	ANALYSIS OF SELECTED CONTRACTS	ANALYSIS OF COMMUNICATION AGENCIES
Source of SPECIAL PROJECTS AND SPONSORSHIP (SPS) funds	<p>SPS</p> <ul style="list-style-type: none"> ↪ Flow of funds ↪ Contracts ↪ Expenditures 	<p>SPS</p> <p>Analysis of selected SPS contracts</p>	<ul style="list-style-type: none"> ↪ Business description ↪ Selection process ↪ Contracts with Government of Canada ↪ Management of contracts ↪ Financial analysis ↪ Other
Source of ADVERTISING contract funds	<p>ADVERTISING</p> <ul style="list-style-type: none"> ↪ Flow of funds ↪ Contracts ↪ Expenditures 	<p>ADVERTISING</p> <p>Analysis of selected advertising contracts</p>	

3.1

Source of Special Programs and Sponsorship Funds—\$355 million

Our analysis of GOC funding has determined that during the period April 1, 1994 through to March 31, 2004, \$355 million was allocated to Advertising and Public Opinion Research Sector ("APORS")/Communications Coordination Services Branch ("CCSB")/Communication Canada for "SPS" contracts, that is contracts which have been issued for sponsorship, public opinion research, special projects, advertising, and the purchasing of promotional items. For purposes of this report we have grouped these contracts together and will refer to these as SPS contracts. The following diagram depicts the sources of funding identified.

Table 3: Sources of Funds Received for SPS Contracts (\$ millions)



Schedule I to this report provides a yearly summary by GOC fiscal year of the sources of this funding.

This \$355 million includes funding for SPS activities in GOC fiscal years 1994-95 to 1996-97 which was three years prior to the GOC fiscal year 1997-98 identified in the November 2003 report of the Auditor General

as the year the Sponsorship Program began. The amounts expended beginning in 1994 have been included because the activities for which the funding was utilized were similar in nature to those Sponsorship activities undertaken after April 1, 1997.

Furthermore, while SPS contracts were under the control of Public Works and Government Services Canada ("PWGSC"), the SPS contracts were primarily accounted for in the "Special Programs" account within PWGSC's accounting system. The Special Programs account was an account which was under the control of Mr. Joseph Charles Guité ("Mr. Guité ") during his term as head of APORS and CCSB and later by Mr. Pierre Tremblay ("Mr. Tremblay") during his tenure.

The funding noted above was provided to PWGSC for the period of 1994-95 through to September 2001 and to Communication Canada after September 2001.

Section 6.1 of this report comments in detail about each of the specific sources of funding identified above.

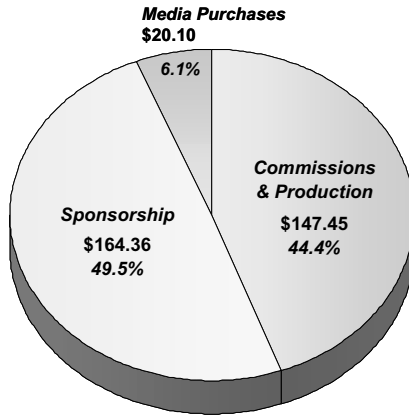
3.2

Use of Special Program and Sponsorship Funds—\$332 million

3.2.1 Summary by Contract Category

Our review has determined that \$332 million of the \$355 million allocated to APORS/CCSB/Communication Canada was committed for SPS contracts; \$164 million or 49% for Sponsorships and \$168 million or 51% for agency production costs, commissions and media purchases.

Table 4: Summary of Total SPS Contracts by Expenditure Categories (\$ millions)



Advertising agencies and other third parties, collectively referred to as communication agencies, managed these SPS contracts to the extent of \$305.1 million while Communication Canada managed sponsorships to the extent of \$26.8 million.

Table 5 illustrates the contract values managed by communication agencies and the contract values internally managed.

Table 5: Management of Special Project and Sponsorship Funds— (\$ millions)

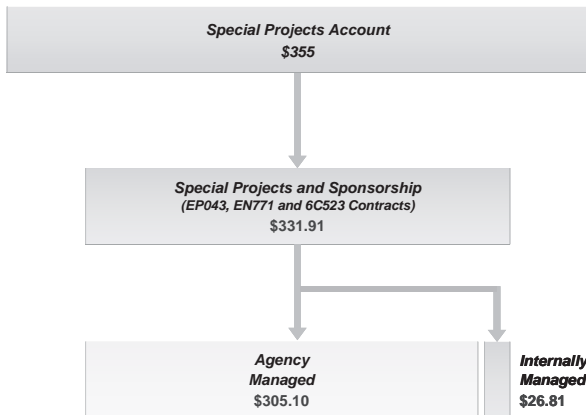


Table 6 is a summary of these amounts by year.

Table 6: Summary by Year of SPS Contract Details for Agency Managed and Internally Managed Contracts
(\$ millions)

<u>Year</u>	<u>Media Purchases</u>	<u>Sponsorship</u>	<u>Agency Commission¹</u>	<u>Production</u>	<u>Total</u>
Agency Managed Contracts					
1994-95	0.74	-	0.13	1.20	2.07
1995-96	6.79	1.76	1.38	12.03	21.96
1996-97	1.55	2.38	0.29	26.57	30.79
1997-98	4.75	22.58	2.91	21.31	51.55
1998-99	6.27	23.61	4.63	26.90	61.41
1999-00	-	25.84	3.78	17.86	47.48
2000-01	-	25.41	3.76	10.81	39.98
2001-02	-	30.25	4.54	5.77	40.56
2002-03	-	<u>8.00</u>	<u>1.19</u>	<u>0.11</u>	<u>9.30</u>
Total Agency Managed	<u>20.10</u>	<u>139.83</u>	<u>22.61</u>	<u>122.56</u>	<u>305.10</u>
Internally Managed Contracts					
2001-02	-	-	-	1.40	1.40
2002-03	-	11.12	-	0.14	11.26
2003-04	-	<u>13.41</u>	-	<u>0.74</u>	<u>14.15</u>
Total Internally Managed	-	<u>24.53</u>	-	<u>2.28</u>	<u>26.81</u>
Total	<u>\$20.10</u>	<u>\$164.36</u>	<u>\$22.61</u>	<u>\$124.84</u>	<u>\$331.91</u>

A detailed listing of the contracts is attached as Schedule 2.

¹ Agency commission includes commissions in relation to media purchases as well as commissions related to sponsorship.

3.2.2 Summary by Agency and Contract Category

Tables 7 and 7a provide summaries of the agency managed contracts organized by the communication agency responsible for the contract and by category of expenditures.

Table 7: Summary of Total SPS Contracts by Agency

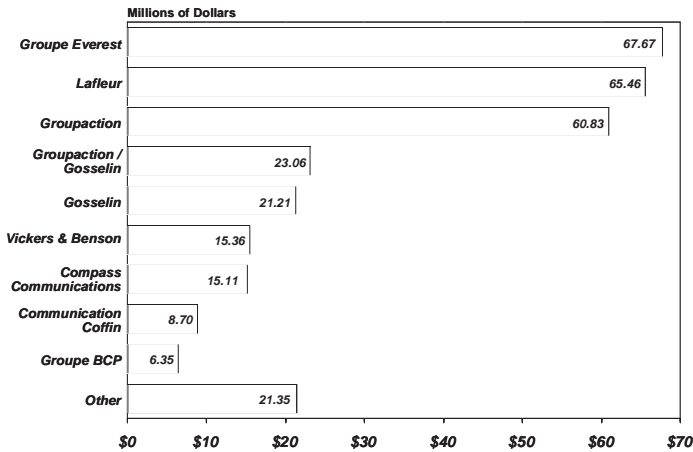


Table 7a: Summary of Total SPS Contracts by Agency and Expenditure Categories (\$ millions)

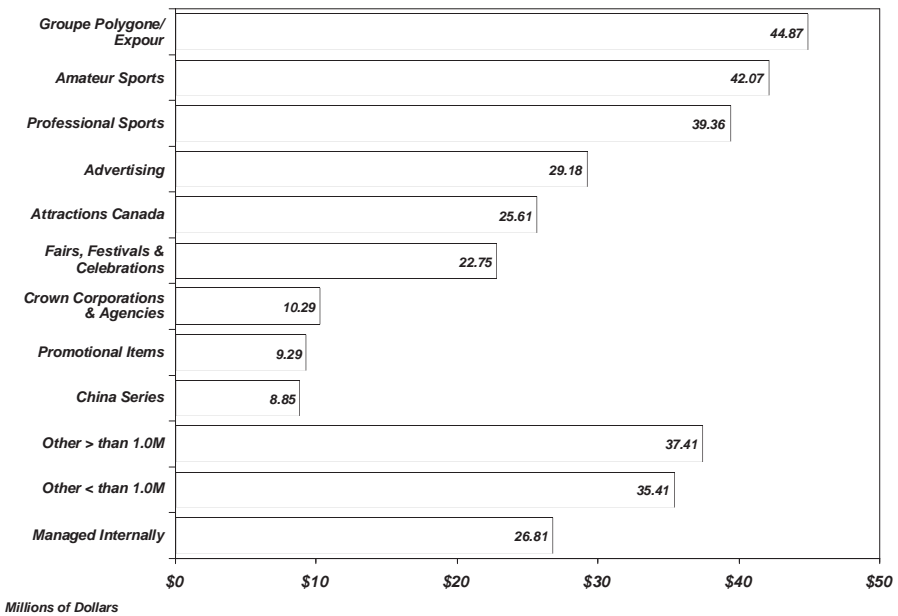
Managing Agency	Media Purchases	Sponsorship	Agency Commission	Production	Total
Groupe Everest	2.97	28.34	4.19	32.17	67.67
Lafleur	1.91	26.20	4.15	33.20	65.46
Groupaction	6.52	37.21	5.87	11.23	60.83
Groupaction/ Gosselin	-	13.00	1.91	8.15	23.06
Gosselin	0.08	11.31	1.58	8.24	21.21
Vickers and Benson	3.40	-	0.60	11.36	15.36
Compass Communications	0.71	7.79	1.30	5.31	15.11
Communication Coffin	-	5.39	0.78	2.53	8.70
Groupe BCP	3.40	0.03	0.61	2.31	6.35
Other	1.11	10.56	1.62	8.06	21.35
Total Managed by Agencies	20.10	139.83	22.61	122.56	305.10
Managed by Communication Canada	-	24.53	-	2.28	26.81
Total Contracts	\$20.10	\$164.36	\$22.61	\$124.84	\$331.91

A detailed listing of these contracts is attached as Schedule 3.

3.2.3 Nature of SPS Expenditures

Kroll has organized the SPS expenditures in a manner which identifies significant events and categories or types of events. The categorization has been done with reliance on the name and description of the event as identified in the SPS contract documentation. Table 8 provides a summary of the total contract values by type of events.

Table 8: Summary by Event Category of SPS Contracts



Section 6.2.3 and Appendix F provides our detailed commentary on the above-noted event categories. A detailed listing of the events in each category is attached as Schedule 4.

3.3

Analysis of Selected Special Program and Sponsorship Contracts

3.3.1 SPS Contracts Sampled

Kroll selected a sample of SPS contracts from the years 1996-97 to 2000-01, for purposes of reviewing invoices and underlying supporting documents in respect of billings to PWGSC.

We selected our sample contracts from this period because:

- i) Documentation was limited with respect to the years 1994-95 and 1995-96;
- ii) The problems identified by PWGSC internal audit relating to the management of the Sponsorship programs occurred primarily during this period; and
- iii) An action plan was initiated in October 2000 to rectify the problems, including the transfer of the Sponsorship Program to Communication Canada in September 2001.

A summary of the contracts we reviewed compared to total SPS contracts for the period is as follows:

**Table 9: Summary of Selected SPS Contracts Reviewed by Kroll
(\$ millions)**

	<u>Total Contracts During the Period</u>	<u>Contracts Reviewed by Kroll</u>	<u>Percentage of Total Contracted</u>
Sponsorships	99.82	94.78	95.0%
Agency Commission	15.37	13.61	88.6%
Media Purchases	12.57	5.96	47.4%
Production	<u>103.45</u>	<u>96.19</u>	93.0%
Total	<u>\$231.21</u>	<u>\$210.54</u>	91.2%

A detailed listing of the contracts is attached as Schedule 5.

Our review of the invoices and underlying documents for this sample of contracts indicated there were invoices in PWGSC files from the communication agencies supporting \$209.67 million, being 99.6% of the total. At this time, we are unable to determine whether or not the balance of the contracted amounts were billed by the agencies.

With respect to the invoices which were in the files, we noted varying degrees of detail and information contained in them or in underlying supporting documentation. For example, some provided details of hours being billed by name or level of person, some only provided a total lump sum, some provided a listing of subcontracted work and provided underlying supporting documentation while others indicated a total on a single line with little or no supporting documentation.

3.3.2 Analysis of Sponsorship and Agency Production Costs

For the \$210.54 million of contracts selected by Kroll, based primarily on the information in the PWGSC files, in summary, we determined that 45.4% was invoiced for payments directly to the sponsorees, 27.8% of the contract values were invoiced for work done by agencies and related parties, and the balance, 26.4%, was invoiced for work done by third parties. Table 10 below summarizes our findings in this regard.

**Table 10: Kroll Analysis of Selected SPS Contracts 1996-97 to 2000-01
(\$ millions)**

	<u>96-97</u>	<u>97-98</u>	<u>98-99</u>	<u>99-00</u>	<u>00-01</u>	<u>Total</u>	<u>Percentage</u>
Sponsorships	5.38	18.39	22.79	24.74	24.30	95.60	45.4%
Amounts Invoiced for Work Done by Agencies and Related Parties							
Agency Sponsorship Commissions	0.61	2.16	2.73	2.95	2.92	11.37	
Agency Production	1.60	3.72	0.91	0.15	-	6.38	
Agency Time Charges	3.58	5.72	7.00	5.35	1.58	23.23	
Agency Commissions ¹	1.17	2.40	1.85	1.72	1.05	8.19	
Subcontracted to Related Party	<u>1.52</u>	<u>1.95</u>	<u>3.01</u>	<u>1.85</u>	<u>1.09</u>	<u>9.42</u>	
Total Invoiced for Work Done by Agencies and Related Parties	<u>8.48</u>	<u>15.95</u>	<u>15.50</u>	<u>12.02</u>	<u>6.64</u>	<u>58.59</u>	<u>27.8%</u>
Amounts Invoiced for Work Done by Third Party							
Subcontracted to Unrelated or Unknown Party	10.96	8.51	9.58	7.41	4.05	40.51	
AOR Commission	-	-	0.65	0.69	0.71	2.05	
Media Purchases	<u>0.03</u>	<u>6.77</u>	<u>3.93</u>	<u>0.84</u>	<u>1.35</u>	<u>12.92</u>	
Total Invoice for Work Done by Third Party	<u>10.99</u>	<u>15.28</u>	<u>14.16</u>	<u>8.94</u>	<u>6.11</u>	<u>55.48</u>	<u>26.4%</u>
Unspent Amounts or Invoices Not Located	-	<u>0.31</u>	<u>0.22</u>	<u>0.14</u>	<u>0.20</u>	<u>0.87</u>	<u>0.4%</u>
Total Contract Value	<u>\$24.85</u>	<u>\$49.93</u>	<u>\$52.67</u>	<u>\$45.84</u>	<u>\$37.25</u>	<u>\$210.54</u>	<u>100.0%</u>

A summary, by contract, supporting this table is attached as Schedule 6. For the contracts we reviewed, 99.6% of the contract values were billed indicating that the agencies billed up to the full extent of the contracts.

Other findings from our contract review are noted in Sections 5.4 and 6.3 of this report.

3.3.3 November 2003 Report of the Auditor General

The Auditor General ("AG") in her report of November 2003, referred to Sponsorship contracts totaling \$250 million. The categories of the contracted amounts stipulated in the contract documents were as follows:

¹ Includes commissions on subcontracted amounts and media purchases.

Table 11: Summary of Contract Details for Contracts Referred to in the Auditor General's Report

	<u>\$ Millions</u>	<u>Percentage</u>
Sponsorships	<u>145.7</u>	<u>57%</u>
Agency Commissions	19.9	8%
Media Purchases	6.9	3%
Production	<u>81.1</u>	<u>32%</u>
Total Agency Commissions, Media Purchases and Production	<u>107.9</u>	<u>43%</u>
Total Contracts	<u>\$253.6</u>	<u>100%</u>

A detailed listing of the contracts is attached as Schedule 7.

The difference between the value of SPS contracts noted in the AG's report and the listing of SPS contracts in this report relates primarily to the time period covered by each report. Specifically Kroll's listing of SPS contracts include SPS contracts from 1994-95 to 1996-97 and contracts in 2000-04 which were not included in the AG's audit.

