



**2000-723**

**Directed Audit of the Management  
of Sponsorships at the  
Communications Coordination  
Services Branch (CCSB)  
Final Report**

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## **Executive Summary**

### **Authority for the Project**

This directed audit was conducted at the request of the Deputy Minister of Public Works and Government Services Canada (PWGSC).

### **Objectives, Scope and Methodology**

The objective of the project was to review the Communications Coordination Services Branch's (CCSB) sponsorship agreements to determine whether they comply with the applicable policies, procedures and authorities for:

- ↗ the establishment of the procurement instruments with the Agency of Record (AoR) and the Communication Agencies (CAs);
- ↗ the approval process for the granting of sponsorship agreements; and
- ↗ contractual documentation, evidence of receipt of services, and proper procedures to authorize payment.

The audit was conducted March 15 to May 11, 2000 using internal audit methods commonly used in the Government of Canada (GoC). The auditors interviewed the Acting Executive Director (A/ED) and the staff of CCSB, as well as a number of employees of the Finance Sector at 350 Albert Street in Ottawa. A detailed analysis was performed on a sample of 276 sponsorship files drawn from a total of 580 files covering the period from November 1997 to March 31, 2000.

### **Background**

CCSB was created in November 1997 in response to concerns about the effectiveness of communications activities and the loss of federal visibility and presence, combined with the need for an integrated structure to deliver communications services.

It was formed by amalgamating existing entities within PWGSC, the Treasury Board Secretariat and the former Canada Communication Group with a mandate to:

- co-ordinate communications activities across the GoC;
- promote the clear, consistent and coherent delivery of the government's messages;
- advise on effective means of obtaining the public's views and informing the public about GoC policies, programs and services; and
- enable public access to Government of Canada information and electronic services.

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Sponsorships come under the Strategic Communications Sector of CCSB and are designed to increase awareness of the Government of Canada among Canadians and increase federal presence and visibility. The anticipated benefits of sponsorships activities include: greater visibility and federal presence in communities across the country through use of the Canada wordmark at events and on promotion material; and a positive perception of the GoC through the use of events and organizations that have high credibility with Canadian citizens in areas such as sports and culture.

### **Key Findings**

**The processes used by CCSB to select and contract with the Communication Agencies and the Agency of Record did not fully comply with the spirit or the letter of Treasury Board rules and directives.**

- ↪ Contracts reviewed worth over \$25 thousand were not awarded through a competitive process.
- ↪ In 1999-2000, two of the eight CAs were awarded 36% and 27% of the approved total value of all contracts on a non competitive basis, which is contrary to the spirit of section 3.1.1 of Appendix Q of the TB contracting policy on "market dominance."
- ↪ The procurement process did not fully meet the requirements of the Treasury Board policy on government contracts.

**The sponsorship approval and decision-making process is subjective and based on professional judgement and experience. Because of a lack of documentary evidence, audit activities could not confirm that the described ad hoc processes for sponsorship approval and decision making have been consistently applied.**

- ↪ The CCSB had prepared a set of Sponsorship Guidelines to assist staff and the Acting Executive Director in awarding sponsorships to organizations that request them. However, the Sponsorship Guidelines were still in draft form for the period audited. Consequently, professional judgement was still being used by CCSB to award sponsorships.
- ↪ Two examples of the application of the draft Sponsorship Guidelines were found in the documents audited. In these two cases, despite recommendations that the requests be rejected, the former ED chose to use professional judgement and sponsor the events.
- ↪ The files reviewed contained no documentary evidence of the professional judgement used when awarding sponsorships (determining dollar amounts in terms of visibility). As a result, it is not possible to give an opinion as to the effectiveness, efficiency and economy of the sponsorships awarded. The files for sponsorships declined by CCSB were similarly lacking in documentation.
- ↪ Although CCSB maintains an inventory of sponsorship files, there was little documentary evidence to justify the decisions taken in 1997-98. Documentation for the subsequent year had improved.

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- ↪ The majority of the files reviewed did not contain an acknowledgement of receipt from CCSB to the organization. Similarly, there was limited correspondence indicating the decision that was made and the amount of the sponsorship.
- ↪ The process described by CCSB staff prior to the audit was not consistently followed.

Management has commenced activities to correct some of the deficiencies in approving sponsorships and documenting the decision-making process. On October 6, 1999, the Acting Executive Director sent a letter to all the organizations that had received a sponsorship, to inform them that in future, they would not receive funding automatically for their activity. His intent was to draw a line between the old system of granting sponsorships and the new one. As well, the draft Sponsorship Guidelines, referred to above, are now being reviewed for implementation.

**The management framework for CCSB's sponsorship decision-making process is inadequate and does not ensure that CCSB sponsorship decisions are transparent, compliant with requirements, or appropriate to achieving value-for-money for the Government of Canada.**

- ↪ Production budgets are determined using professional judgement and the decision-maker's own knowledge, without being adequately documented on the sponsorship file.
- ↪ CCSB's management framework lacks sufficient controls over the processing of payments made against approved sponsorship commitments. For most of the reviewed sponsorship files with a production budget, it was difficult to reconcile the invoices submitted by the CAs with the accounting vouchers substantiating the invoice. In the absence of such information, it is not possible to determine whether the contracts with the CAs represent best value for the government.
- ↪ The production invoices submitted by the CAs total close to 99% of the budget set by CCSB. There does not appear to be any incentives for the CAs to be under budget.
- ↪ Contracts with CAs lack clarity regarding what products/services are expected in return for the 12% Management Fee for managing sponsorships as opposed to what products/services are expected in return for production budgets awarded to the CAs.
- ↪ Requirements for the management control of government funds administered by the AoR should be defined. There are currently no CCSB guidelines or contract provisions for dealing with the use of interest earned on funds advanced to the AoR.
- ↪ A number of event files do not contain a post mortem report to confirm event objectives were achieved. For some events, the post mortem appeared to have been prepared by employees of the sponsored organization and not by the CA. Cases were found within the audit sample where CCSB granted additional moneys so that the CA could complete the post mortem requirement of the contract.

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## **Conclusions**

Based on the analysis of the documents available in the sponsorship files reviewed and the interviews conducted, the project concludes that:

- the processes used to select and contract with the Agency of Record and the Communications Agencies did not fully meet the requirements of the Treasury Board policies on contracting.
- the management control framework (MCF) that supports the achievement of objectives, the safeguarding of assets, the management of risk and the reporting of timely and accurate information to management is inadequate.

The auditors discussed the audit results with the Acting Executive Director and the Chief, Special Projects. During the discussions, it was acknowledged that CCSB management had already taken steps to address some of the problems identified by this audit.

## **Recommendations**

It is recommended that the Acting Executive Director:

1. *Take the necessary steps to ensure that CCSB's contracting processes comply with TB directives, policies and procedures;*
2. *Formally implement appropriate processes and controls over the granting and management of sponsorships to ensure sound management of, control over, and accountability for sponsorship - encompassing due diligence, consistency in approach, transparency of operations and adequate reporting; and*
3. *Implement adequate management controls to ensure that sponsorship amounts are consistently determined (at a minimum level needed to attain expected results) and appropriately documented; and, the application of effective asset management principles including: control over the disposition of interest earned on cash advances, the establishment and control of production budgets and matching expenditures, control over the inventory of promotional items, stronger linkages between the funds provided and the results achieved and sufficient reporting to support a value-for-money evaluation.*

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## **1 Introduction**

### **1.1 Authority for the Project**

This directed audit was conducted at the request of the Deputy Minister of PWGSC.

### **1.2 Objectives, Scope and Methodology**

The objective of the project was to review the Communications Coordination Services Branch's (CCSB) sponsorship agreements to determine whether they comply with the applicable policies, procedures and authorities for:

- ☞ the establishment of the procurement instruments with the Agency of Record (AoR) and the Communication Agencies (CAs);
- ☞ the approval process for the granting of sponsorship agreements; and
- ☞ Contractual documentation, evidence of receipt of services, and proper procedures to authorize payment.

The audit was conducted using internal audit methods commonly used in the federal government. The auditors met with the Acting Executive Director and the staff of CCSB and a number of employees of the Finance Sector. A detailed analysis was performed on a sample of 276 sponsorship files drawn from a total of 580 files covering the period from November 1997, when CCSB was created, to March 31, 2000. As well, the auditors reviewed certain control registers, reports and files kept by the staff of the audit entity. Flow charts of the control framework (CF) for the sponsorship award process and a flow chart and procedural diagram of the main steps involved in awarding a sponsorship were prepared. (Appendix A) During this process, the auditors received assistance and comments from the Chief, Special Projects of CCSB.

The audit team worked closely with CCSB representatives and provided periodic verbal reports to keep management of the audit entity abreast of how the audit project was proceeding.

The 276 files sampled included: 100% of available sponsorships worth over \$100 thousand; approximately 25% of available sponsorships worth between \$25 thousand and \$100 thousand; and approximately 10% of available sponsorships worth between \$5 hundred and \$25 thousand.

Once the detailed review of the files had been completed, the project authority, with the consent of Audit and Review Branch senior management, decided, based on the preponderance of the evidence and for reasons of economy, to stop the file analysis and draw appropriate conclusions based on the results.

Lastly, the auditors visited the AoR to complete the necessary audit tests and examine the controls the agency exercises.

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The audit was conducted from March 15 to May 11, 2000 by a seven member project team of the Audit and Review Branch, PWGSC.

The terms of reference for this internal audit project were prepared in consultation with the Acting Executive Director of CCSB and were approved by the Deputy Minister of PWGSC.

### **1.3 Background**

#### **1.3.1 Profile of CCSB**

CSSB was created in November 1997 in response to concerns about the effectiveness of communications activities and the loss of federal visibility and presence, combined with the need for an integrated structure to deliver communications services.

CCSB was formed by amalgamating existing entities within PWGSC, the Treasury Board Secretariat and the former Canada Communication Group. The Branch's mandate is to:

- co-ordinate communications activities across the Government of Canada
- promote the clear, consistent and coherent delivery of the government's messages
- advise on effective means of obtaining the public's views and informing the public about Government of Canada policies, programs and services
- enable public access to Government of Canada information and electronic services

Sponsorships come under the Strategic Communications Sector of CCSB. They are designed to:

- increase awareness of the Government of Canada among Canadians
- increase federal presence and visibility

The anticipated impacts of sponsorships are as follows:

- greater visibility and federal presence in communities across the country through use of the Canada wordmark at events and on promotional material
- positive perception of the GoC through the use of events and organizations that have high credibility with Canadian citizens in areas such as sports and culture.

#### **1.3.2 CCSB Sponsorship Processes**

Sponsorships are managed in two distinct ways, depending on dollar value. Where the sponsorship is less than \$25 thousand, CCSB contracts with a Communications Agency for the overall management of the sponsorship. If the sponsorship is for \$25 thousand or more, CCSB contracts with both the AoR and again with a CA. The sponsorship management role of the CA in this latter case remains essentially the same, with the AoR acting as an intermediary for financial control purposes between CCSB, the CA and the recipient of the sponsorship funds. When it is involved, the AoR receives a commission of 3% of the sponsorship in return for its services. The CA receives a commission of



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12% of all sponsorships it manages on behalf of the GoC. If the CA is also granted a budget for production of additional promotional items or activities, it also receives a commission of 17.65 % of the portion of the production budget used to purchase promotional goods and services outside the CA.

When the AoR is involved, CCSB forwards 80% of the sponsorship amount to the AoR which in turn forwards the sponsorship funds to the recipient. The balance of 20% of the sponsorship amount is only to be paid by CCSB following the conclusion of the event and the receipt of either (A) an event Post Mortem report prepared by the CA, or (b) an Affidavit from the CA indicating the event has been completed, the GoC visibility has been received, and the Post Mortem report is being prepared. For the production budget, the CA invoices CCSB directly.

Graphic presentations of this process are depicted in Appendix A.

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## **2 Findings, Conclusions and Recommendations**

### **2.1 Audit Objective 1 - To examine the compliance of the establishment of the procurement instruments with the Agency of Record and the Communication Agencies.**

#### **2.1.1 Process used to select and contract with the Agency of Record**

On October 29, 1997, a notice of proposed procurement (NPP) entitled "Letter of Interest" was posted on PWGSC's Open Bidding Service (OBS). The notice indicated that the GoC was looking for a co-ordinating agency and contained general criteria as to the qualifications the firm and its staff were required to possess and asked that suppliers submit a one-page letter by November 12, 1997 to indicate that they were interested in pursuing the selection process. In return, PWGSC would send interested firms a questionnaire to complete and return and would then prepare a short list of firms deemed qualified, based on the questionnaire responses.

Eight (8) firms submitted a letter of interest in response to the NPP and received the questionnaire. Each of the completed questionnaires made available to the auditor contained a hand written note with a general assessment of the strengths and weaknesses observed by the evaluation officer in charge of procurement at the time. Two firms were retained and invited to make a presentation to a selection committee made up of three PWGSC employees, an employee of the Canada Information Office, and a private-sector observer. The committee members had a form with a rating scale to assist them in evaluating the firms' presentations. The members concluded that one of the competing firms was the best qualified firm. The contract was issued as a formal agreement for a five-year period from April 1, 1998 to March 31, 2003, with two one-year renewal options.

Since the agreement came into effect, call-ups, known as "Directions" for sponsorship of a monetary value of nearly \$46 million have been issued and no further contracting approval has been obtained.

#### **Observations**

An examination of the notice of proposed procurement revealed that it made no mention of the period during which services were required, mandatory and rated requirements, the method that would be used to select suppliers, or the pass mark suppliers would have to obtain to move on to the next stage in the selection process.

The auditors noted that the questionnaire used in the process contained no mandatory requirements and did not give the scale for rating the responses or specify the role that

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price would play in the evaluation. The file contained no documentation concerning the approval process for the contract award.

The contract with the AoR does not show a total monetary value, nor does it specify a dollar limit for the Directions, which the contracting authority specified in the agreement can issue.

The policies on government contracts require that any goods or service requirement be assigned a dollar value, even if it is approximate, and that this value be used to determine the level of approval that is needed to issue a contract. In this case, an approximate dollar value was not established and consequently no approval was subsequently requested or obtained from the person with financial signing authority under the charter in effect at PWGSC.

### **Conclusions**

After reviewing CCSB's process against applicable policies, procedures and authorities, it is the auditors' opinion, that the solicitation and contract award process that was used to retain the services of the AoR:

- did not fully meet the requirements of the Treasury Board policies on government contracts;
- was not carried out in a manner which fully demonstrates fairness, equity or transparency with respect to the suppliers that were solicited; and
- did not guarantee the best price for government contracts.

The auditors discussed the audit results with management of CCSB.

#### **2.1.2 Process used to select and contract with the Communication Agencies**

On February 6, 1997, an NPP entitled "Letter of Interest" was posted on PWGSC's Open Bidding Service (OBS). The notice indicated that "PWGSC is looking for full-service, national communications firms to develop and administer national/regional event marketing campaigns to supplement advertising initiatives." The purpose of the notice was to establish a list of qualified suppliers. The notice contained general criteria defining the qualifications the firms and their staff were required to possess in this area of expertise. The "Letter of Interest" indicated that PWGSC would send interested firms a questionnaire to complete and return and would then prepare a short list of firms deemed qualified, based on the questionnaire responses.

Twenty-four (24) firms responded to the NPP and received the questionnaire. The completed questionnaires made available to the auditors contained a hand written note with a general assessment of the strengths and weaknesses observed by the evaluation officer. Ten firms were asked to make a presentation to a selection committee. The

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committee members had a form with a rating scale. When the presentations had been completed, ten firms were retained, forming an inventory of qualified suppliers.

### **Observations**

Within the NPP or "Letter of Interest" there was no mention of the period during which services were required, mandatory and rated requirements, the method that would be used to select the suppliers or the pass mark they had to obtain.

The auditors found that the questionnaire used in the process contained no mandatory requirements and did not give the scale for rating the responses.

It is important to note that, according to the provisions of the TBS contracting policy on government communications contracts, the government must monitor contract awards for communications services to ensure that a particular market is not dominated by one or more contractors. Market dominance is defined as one or more contractors each having been awarded more than 25% of the approved total value of all contracts for a particular service in the current fiscal year. Remedial action will be taken, if required, to eliminate market dominance. The audit revealed that at least two CAs had been awarded contracts of 36% and 27% of the approved total value on a non competitive basis, and that there was no indication that CCSB had taken remedial action.

### **Conclusions**

The auditor concluded that:

- the process used to establish the list of CAs does not fully meet the requirements of Treasury Board policies; and
- the mechanisms used by CCSB to retain a CA are not competitive, as recommended in the government contracts directives, and do not guarantee the best price for government contracts.

The auditors discussed the audit results with management of CCSB.

### **Recommendation**

It is recommended that the Acting Executive Director:

1. *Take the necessary steps to ensure that CCSB's contracting processes comply with all related TB directives, policies and procedures.*

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**2.2 Audit Objective 2 - To examine the adequacy of the approval process for granting sponsorship agreements**

Audit activities found that:

- CCSB prepared draft Sponsorship Guidelines for granting and managing sponsorships but, as these were not formally approved, CCSB instead used ad hoc processes based on professional judgement over the period audited; and
- Deficiencies in other areas of the management framework over sponsorships place at risk the cost effective achievement of CCSB's mandate to promote the delivery of the GoC's messages.

**2.2.1 Processes for Granting and Managing Sponsorships**

CCSB prepared draft Sponsorship Guidelines to formalize its processes for granting and managing sponsorships. The draft Guidelines outline:

- what constitutes a sponsorship and why a sponsorship is used; and
- the eligibility criteria to use in assessing the feasibility of GoC involvement.
- A checklist to evaluate sponsorship proposals based on:
  - the profile of the event (its uniqueness and timeliness);
  - GoC messaging opportunities (media, audience reach, visibility/presence);
  - the effectiveness of communications in support of broader GoC objectives;
  - funding elements to consider when determining a sponsorship amount;
  - the past performance of the event organizers and history of the event; and
  - any prior involvement of the GoC with the event.
- Role of the Communications Agencies in managing the GoC sponsorship; and
- the key documents to be created (e.g. Visibility Plan, event Post Mortem).

These draft Sponsorship Guidelines were not approved when the former ED retired in August 1999, and they remained under consideration by the current A/ED. At the conclusion of the audit, it was noted that CCSB consideration was being given to now formalizing the draft Sponsorship Guidelines.

In the absence of formal decision-making and management processes, CCSB used ad-hoc processes which had evolved over time. Discussions with the A/ED confirmed the decision-making process is highly subjective and based on professional judgement and experience. During the audit, these ad-hoc processes were documented and confirmed with CCSB officials. However, audit activities could not confirm these ad-hoc processes were consistently applied throughout the period audited because the judgementally-based processes for analysing sponsorship requests, for deciding whether or not to grant a given sponsorship, for determining how much to award, and for selecting an appropriate CA, were not documented on sponsorship files.

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Two examples of the application of the draft Sponsorship Guidelines were found in the documents audited. In these two cases, despite recommendations that the requests be rejected, the former ED chose to use professional judgement and sponsor the events.

Other deficiencies noted in the informal ad-hoc processes included insufficient controls to ensure sponsorship files were adequately managed or to ensure key sponsorship documents were received, reviewed, and retained on file. This was clearly evident by the following:

- Although CCSB maintains an inventory of sponsorship files, there was little documentary evidence to justify the decisions taken in 1997-98. Documentation for the subsequent year had improved.
- Although sponsorship approval is to be based on a positive assessment of a sponsorship proposal, proposals were only evident for approximately 25% of the files reviewed, and of these, few contained evidence CCSB had assessed the proposal.
- Although CCSB is to send a letter to notify sponsorship recipients of the amount approved and the CA which will manage the sponsorship for the GoC, these decision letters were only evident for approximately 25% of the files reviewed.
- Although CAs are to provide a Visibility Plan to outline the visibility and messaging opportunities for the GoC at sponsored events, these Visibility Plans were only evident on fewer than 25% of the files reviewed.
- Although CAs are contracted to provide Post Mortem reports detailing GoC visibility at sponsored events, Post Mortem's were only evident on just over 25% of the files reviewed, and of these, few contained evidence CCSB reviewed the Post Mortem. Interviews indicate Post Mortem's are seldom reviewed in detail, due mainly to workload and time constraints.

### **2.2.2 The MCF over Sponsorships**

Audit activities revealed other deficiencies in the MCF over sponsorships including:

- an insufficient segregation of duties and oversight,
- an insufficient level of personnel involved, and
- an inadequate matching of skills with job requirements.

#### Insufficient Segregation of Duties and Oversight

The A/ED, prior to the retirement of his predecessor, administered sponsorships as the Director General, Strategic Communications. Since accepting the A/ED position, no effort has been made to re-staff the DG, Strategic Communications position in favour of maintaining the concentration of decision-making at the ED level.

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At CCSB, approved sponsorships are essentially managed by only three individuals: the A/ED, the Chief, Special Projects, and the Communication and Strategic Planning Officer. While these latter two positions provide clerical and administrative support to the A/ED, the Chief, Special Projects processes all invoices for approval by the A/ED. Approved invoices are then sent to Finance for payment. Discussions with Finance revealed that approved invoices are generally paid without being questioned unless anomalies are noticed or sponsorship/production budgets are exceeded.

Insufficient Level of Personnel

The CCSB organization structure for managing sponsorships is flat, with the diverse range of sponsorship activities being distributed among few resources. Although CCSB indicated this structure was established in the spirit of Program Review to minimize overhead while also facilitating timely decision-making, audit results indicate this has created an environment within which staff are overtaxed in trying to effectively manage CCSB sponsorships. In addition, the concentration of duties with specific positions does not provide an appropriate level of backup or succession planning in the event of staff absence or departure.

Inadequate Matching of Skills with Job Requirements

As noted earlier, the Chief, Special Projects processes all invoices prior to sending them to the A/ED for approval. These types of processing activities, which are usually performed by persons with either a finance or accounting background or by persons who have been appropriately trained, should include confirming that the invoiced amounts are appropriate and compliant to both contract and regulatory requirements. However, audit interviews confirmed that invoices are essentially reviewed for reasonability only. Further, audit procedures uncovered numerous discrepancies with paid invoices - these discrepancies are further discussed in the next section of this report on the framework for managing the financial aspects of approved sponsorships. These and the other problems noted during the audit indicate that staff currently lack the appropriate knowledge level to effectively manage all aspects of approved sponsorships.

**Conclusion**

The management control framework over sponsorship lacks an accountability framework including adequate decision-making and management processes and controls to demonstrate due diligence in the management and expenditure of sponsorship funds.

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## **Recommendation**

It is recommended that the Acting Executive Director:

2. *Formally implement appropriate processes and controls over the granting and management of sponsorships to ensure sound management of, control over, and accountability for sponsorship - encompassing due diligence, consistency in approach, transparency of operations and adequate reporting.*

### **2.3 Objective 3 - To examine the adequacy of the contractual documentation, evidence of receipt of services, and proper procedures to authorize payments.**

From a financial perspective, another objective of this audit was to examine the adequacy of processes and controls relative to the financial considerations involved in the granting and managing of sponsorships. Audit activities found that:

- CCSB's sponsorship decision-making process is inadequate with respect to the financial aspects of a proposed sponsorship and does not ensure that CCSB sponsorship decisions are transparent, compliant with requirements, or appropriate to achieving value-for-money for the GoC.
- Contracts with CAs lack clarity regarding what products/services are expected in return for the 12% Management Fee for managing sponsorships as opposed to what products/services are expected in return for production budgets awarded to the CAs.
- The CCSB management framework lacks sufficient controls over the processing of payments made against approved sponsorship commitments.

#### **2.3.1 Controls over the Sponsorship Decision-Making Process**

The financial aspects to be considered when deciding to grant or reject a sponsorship should be based on a financial analysis in order to determine the merits of funding one event relative to another, and the amount to award in each situation. Similarly, the decision to grant a production budget to the CAs for additional promotional items and visibility should also be based on an appropriate financial analysis. However, no evidence was found to indicate these types of financial analyses have been performed by CCSB over the period audited.

In the case of approved production budgets, this lack of evidence documenting how production budgets are determined has created additional problems which surfaced during the review of invoices against the approved production budget. These are discussed in more detail below.



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CCSB recently began preparing an Event Summary sheet which is to be placed on all CCSB sponsorship files to record in summary form, many important details about the event including the title, location, date, and type (sporting, cultural, etc.) of the event, the sponsorship and production budgets awarded, whether or not the AoR is to be involved, the CA which will manage the sponsorship, the fees to be paid to the AoR and the CA, and the involvement of other government stakeholders. However, Event Summary sheets contained on the files audited were for the most part incomplete and did not contain the rationale for the decision making process.

**2.3.2 Management Fee and production budgets paid to CAs**

While examining the processing of invoices against approved sponsorship and production budgets, problems were noted which indicate that contracts with CAs do not clearly establish what services the CA is to provide in return for its 12% sponsorship management fee and what services are invoiced against the production budget for the event. For example, the audit identified that the charges for preparing Post Mortem reports were included in the 12% management fees in cases where no production budget was awarded. In other cases, similar charges were invoiced as professional fees when a production budget had been granted. The audit indicated that there were no clauses in the contracts with the CA which prohibit the CA from invoicing CCSB in this manner. In the absence of clear guidance on this issue, it is unclear as to whether the production of the Post Mortem Report is paid through the production budget, the 12% management fee or a supplementary allocation above the 12% management fee limit.

Because CCSB does not analyse or document a detailed breakdown of the production budgets, it is impossible to verify if CCSB received, in full, the services for which the CA was retained. The invoices charged against production budgets for most of the files audited did not contain a sufficiently detailed breakdown of the amounts charged or the services provided. For those invoices which did provide some details on the breakdown of amounts being billed, we concluded the amounts being charged were for products/services more appropriately considered management of the sponsorship (and therefore to be included in the 12% commission fee paid), and not for products/services appropriate to the use of the production budget.

The auditors conclude that the contract documents should be reviewed and modified in order to ensure that there is clarity around what is included in the 12% management fee versus what can be billed against an approved production budget.

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**2.3.3 Controls over Payment of Sponsorship Invoices**

After applying audit procedures to the payment of invoices retained on sponsorship files, numerous problems were noted with the processing of these invoices which indicate that CCSB lacks sufficient controls over the payment of sponsorship invoices.

Existing control procedures did not ensure that all invoices were paid at the correct amounts in accordance with Treasury Board requirements (e.g. Per diem rates) or as specified in the contracts.

In some cases, total payments exceeded sponsorship budgets - this was most notably during the earlier 1997/98 and 1998/1999 fiscal years and was caused by recording a number of sponsorships under a single contract with a CA. This resulted in some cases in payments which exceeded discreet sponsorship amounts but which cumulatively remained within the limits of the single contract. By implementing improved contracting practices which now feature individual contracts for each sponsorship, CCSB has in large part eliminated this deficiency.

It was often difficult to reconcile the invoices with supporting documentation because the supporting documentation either did not exist or was not retained on CCSB files. In virtually all such cases however, these invoices were paid without being questioned or challenged.

Of particular concern, it was noted that the production budgets often awarded to CAs for additional GoC presence and visibility at sponsored events, were often fully, or close to fully, invoiced by the CAs. Although some invoices associated with additional funding included charges for promotional items, many others consumed the balance of the available production budget via invoiced labour charges without providing evidence to clearly indicate how this labour resulted in the GoC receiving additional visibility or presence at the sponsored event. In these cases, it is not evident that the GoC received value for money for the amounts it paid out for these labour charges.

As noted, some invoices did include charges for the purchase and management of promotional items. Contract documents did not clearly indicate the provisions to be taken into account when dealing with these promotional items. For example, one invoice for \$708 thousand included charges for production management, inventory management, warehousing, insurance, and transportation. However, in attempting to identify how these items were managed, audit procedures could not validate that an appropriate inventory management system existed and was therefore used to safeguard the purchased items. Consequently, the unanswered questions about the overall management and distribution of this inventory of promotional items indicates CCSB lacks sufficient controls to protect the condition and value of these assets.

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Other concerns surfaced when the auditors did not find the required evidence on sponsorship files to confirm, as specified in the contracts with the CA's, that for "*creative and production services*" written approval was given to the CA's by the *Technical and Project Authority* prior to any costs being incurred.

There was also no evidence of a competitive process to award sub contracts for requirements estimated over \$25 thousand. In these cases, the contract requires the CA's to obtain competing bids from no less than three outside suppliers. Such bids must be submitted for approval by the *Contracting authority* before entering into sub contracting arrangements. Some invoices examined proved to be for sub contracts with companies which were affiliated with the CAs. While it is permitted under the terms of the contract between CCSB and the CA to use affiliated companies and to get a mark-up of 17.65%, the auditors are concerned whether or not the GoC received these items at the best possible price and with due regard to prudence, probity, and economy.

#### **2.3.4 Financial management controls over the processing of payments**

For its involvement with sponsorships over \$25 thousand, the AoR receives a commission fee of 3% of the sponsorship amount. Audit results indicate that the management processes and activities, as well as the amount of work required of the AoR, is generally the same regardless of whether the sponsorship is for \$25 thousand or \$500 thousand. Our analysis of the financial records maintained by the CCSB and accounts indicate that for the 1998/1999 and the 1999/2000 fiscal years, the AoR received a total of approximately \$1.4 million as its commission fees. During these two years, the AoR issued approximately 650 cheques relative to some 260 sponsored events. In light of these findings, the GoC paid approximately \$2 thousand in fees to the AoR for each cheque the AoR issued. The auditors confirmed, through a site visit, that the AoR employs a sophisticated framework of controls over the processing of financial transactions and sponsorship payments. Despite this level of control, there remains a doubt as to whether or not the GoC is receiving value for money in its relationship with the AoR.

There is a need for greater segregation of the funds held by the AoR on behalf of CCSB for event sponsorship and those funds paid to the AoR. The lack of adequate separation makes it difficult to identify when the AoR is acting on behalf of CCSB and when it is making legitimate use of its own revenue. As well, sponsorship funds can be held for a period of time and result in the generation of interest. At this time the contract documents with the AoR do not specify how this interest amount should be managed and accumulated interest is not accounted for in the sponsorship amounts paid to the AoR.

80% of the sponsorship amounts (including commissions) are to be paid when the sponsorship is first approved, with the balance of 20% being payable following completion of the event and submission of either the Affidavit or the Post Mortem report.

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Of those sponsorship files audited on CCSB premises, only 34% of files which should have contained an Affidavit actually had the Affidavit on file. In contrast, for all the files audited at the offices of the AoR, it was possible to obtain a copy of the Affidavits as they were attached to CCSB's approval for the AoR to release the final 20% of the sponsorship amount to the CA.

Post Mortems, which should be prepared at the end of events, were only available for approximately 25% of the audited sponsorship files at CCSB. Currently payment for services is made to CAs in spite of the fact that these Post Mortems are outstanding. In the opinion of the auditors, a hold back of some portion of the 12% commission paid to the CAs would ensure a higher and more timely compliance to this requirement.

### **Recommendations**

It is recommended that the Acting Executive Director:

3. *Implement adequate management controls to ensure that sponsorship amounts are consistently determined (at a minimum level needed to attain expected results) and appropriately documented; and, the application of effective asset management principles including: control over the disposition of interest earned on cash advances, the establishment and control of production budgets and matching expenditures, control over the inventory of promotional items, stronger linkages between the funds provided and the results achieved and sufficient reporting to support a value-for-money evaluation.*

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Appendix A

