



Public Works and
Government Services
Canada

Travaux publics et
Services gouvernementaux
Canada

Canada

Audit and Evaluation
Branch

Direction générale de la
vérification et de l'évaluation

2005-710

Final Report

**Audit of PWGSC's Implementation of Changes to
the Management of Government Advertising**

2006-12-08

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Executive Summary

Authority for the Project

This audit was approved by the department's Audit, Assurance and Ethics Committee (AAEC) as part of the 2005-06 Internal Audit Plan and is part of the government's 2002 commitment to undertake an internal audit once new procurement tools were in place to improve the delivery and management of government advertising.

Background

In 2002, Treasury Board Secretariat (TBS) led a review on sponsorships, advertising and public opinion research. The review was undertaken in collaboration with the former Communication Canada, Public Works and Government Services Canada (PWGSC), the Privy Council Office (PCO), and other departments. Following this review, the government announced a number of measures to reform and improve the delivery and management of government advertising guided by transparency, accountability, value-for-money, and increased competition, including changes to the Treasury Board (TB) Contracting Policy and Communications Policy of the Government of Canada.

Within PWGSC, two organizations have responsibilities for the management of government advertising:

1. Advertising Coordination and Partnership Directorate (ACPD), Government Information Services Branch (GISB) is responsible for co-ordinating advertising activities government wide; and
2. Communications Procurement Directorate (CPD), Acquisitions Branch (AB) is responsible for procuring and contracting advertising services government-wide.

In 2002-2003, federal institutions spent approximately \$111 million on government advertising, including public notices, over \$69 million in 2003-2004, and more than \$49 million in 2004-2005.

Objective and Scope

The objective of the audit was to provide assurance that PWGSC had implemented adequate and appropriate management controls and systems to ensure compliance with the TB Contracting Policy (January 2003) and the Communications Policy of the Government of Canada (November 2004), regarding the management of advertising, and that PWGSC had implemented corrective actions to address the recommendations of previous audits and reviews of advertising.

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This audit was conducted from January 2006 to July 2006.

The audit did not include an examination of advertising activities in other federal institutions, nor PWGSC's compliance with policies and procedures for the issuance of contracts for pre-campaign surveys and post-campaign evaluations for large advertising campaigns. These surveys and evaluations are classified as public opinion research and were audited in 2003 and 2005.

Findings and Conclusion

PWGSC has made substantial improvements regarding the renewal of advertising. The audit concludes that PWGSC has implemented most of the corrective actions to address the recommendations of previous audits and a follow-up review of advertising. Management continues to implement the remaining actions. We found that the integrity of the contracting process has improved, and that appropriate management controls and systems were established to ensure compliance with TB requirements. For the most part, PWGSC complied with the requirements of the TB Contracting Policy and the Communications Policy of the Government of Canada regarding the management of advertising. While we noted several instances of non-compliance with contract approval and signing authorities as well as commitment authority, in our opinion, the incidence rate of these errors does not constitute a systemic problem.

Specifically, the audit found that:

- PWGSC has established procurement tools for the renewed advertising program in accordance with the reforms announced in April 2003 and complied with the relevant policy requirements. Normally, procurement requirements are referred to the Procurement Review Committee (PRC) as required under the TB Procurement Review Policy. In this instance, the multi-department bid evaluation committee responsible for the establishment of these tools did not submit the advertising procurement requirement to the government's PRC.
[*].
- PWGSC has established and followed standardized procedures and guidelines for the coordination and approval of client institutions' advertising campaign proposals and media plans, and established internal management systems and controls to manage the government's contract with its Agency of Record (AoR).
- PWGSC has processed client department requests for advertising services and media placements using the appropriate procurement tools, in compliance with most policy and contractual requirements. We noted some compliance exceptions where the delegated authority limits for approval and signing of contractual instruments were exceeded. However, these cases were assessed as non-systemic. Of a more significant nature, PWGSC accepted requisitions for advertising services approved from client departments without

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evidence of client certification under Section 32 of the Financial Administration Act (FAA) on the requisition form.

- PWGSC has developed an advertising management information system (AdMIS) so that client institutions can record and track their respective advertising activities and expenditures. However, AdMIS as a whole is not yet sufficiently mature to be a reliable single source of advertising information.
- PWGSC has established and followed internal policies and procedures for ensuring its own advertising campaigns and related expenditures were approved, documented and disclosed in accordance with TB policy requirements. The departmental advertising policy was last updated in April 2004, and should be updated to reflect the November 2004 and August 2006 TB policy revisions.

Recommendations

It is recommended that the:

Assistant Deputy Minister, Acquisitions Branch:

1. *Ensure that all contract requisition forms received from client institutions contain the client's certification under Section 32 of the FAA that funds for the services being requested are available before entering into contracts.*
2. *Ensure that all advertising contracts are approved and signed by procurement officers with the appropriate delegated contracting authority.*

Assistant Deputy Minister, Government Information Services Branch:

3. *Review the process for the production of the Annual Report of GoC Advertising Activities to determine if there are opportunities for AdMIS to support and facilitate the production of the annual report.*

Assistant Deputy Minister, Corporate Services, Policy and Communications Branch:

4. *Update PWGSC's departmental advertising policy, and related internal processes and procedures, to ensure they accurately reflect PWGSC's responsibilities for the management of its internal advertising initiatives under the TB Communications Policy of the Government of Canada and the related TB Communications Policy Procedures.*

1 Introduction

1.1 Authority for the Project

This audit was approved by the department's Audit, Assurance and Ethics Committee (AAEC) as part of the 2005-06 Internal Audit Plan and is part of the government's 2002 commitment to undertake an internal audit once new procurement tools were in place to improve the delivery and management of government advertising.

1.2 Objective

The objective of the audit was to provide assurance that PWGSC had implemented adequate and appropriate management controls and systems to ensure compliance with the requirements of the Treasury Board Contracting Policy (2003-01) and the Communications Policy of the Government of Canada (2004-11) related to the management of government advertising.

Specifically, the audit examined PWGSC's responsibilities under the renewed advertising program, as follows:

- As a common service provider, (a) the establishment of government-wide procurement tools for the renewed advertising program (standing offers, supply arrangements, Agency of Record (AoR) contract), (b) the development of standardized procedures and guidelines for the coordination of government-wide advertising activities, and (c) the processing of government advertising contracts in accordance with TB policies and contract provisions;
- As a client department, the management of departmental advertising campaigns in compliance with TB policies and Financial Administration Act (FAA) requirements; and
- The implementation of PWGSC corrective actions as documented in both management and government-wide responses to previous audits and reviews of advertising.

1.3 Scope

The scope of the audit included:

- Advertising contracts issued by PWGSC's Acquisition Branch (AB) between May 21, 2004 - when the renewed procurement tools were implemented - and January 16, 2006;
- Coordination of government-wide advertising activities by PWGSC's Government Information Services Branch (GISB) from April 1, 2004 - when the activity was transferred from Communication Canada to PWGSC - to January 16, 2006;
- The management of PWGSC's own advertising campaigns from April 1, 2004 to January 16, 2006 by PWGSC's Corporate Services, Policy and Communications Branch.

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The audit did not include an examination of advertising activities in other federal institutions or of PWGSC's compliance with policies and procedures for the issuance of contracts for pre-campaign surveys and post-campaign evaluations for large advertising campaigns. These surveys and evaluations are classified as public opinion research. In 2002, the Government committed to undertake an internal audit of public opinion research (POR) once the audit of advertising was completed. POR was audited by the Auditor General in 2003 and 2005.

1.4 Methodology

The audit was conducted in accordance with the Audit and Evaluation Branch's multi-phased audit process and the Treasury Board (TB) Policy on Internal Audit. The audit identified PWGSC's responsibilities related to the management of government advertising in the TB Contracting Policy and the Communications Policy of the Government of Canada. The identified responsibilities were discussed with PWGSC senior managers before being finalized as audit criteria against which PWGSC would be assessed. The audit team conducted interviews, applied audit tests, and collected audit evidence.

The audit team conducted a detailed examination of all advertising production contracts and a sample of media placement contracts from May 21, 2004 to January 16, 2006. Following an analysis of the information and evidence collected, the audit team prepared audit findings and conclusions and validated these with the appropriate senior managers. This report presents the results of the audit work.

The audit examination phase was performed between January 2006 and July 2006.

1.5 Background

The Government of Canada has a duty to communicate with and inform Canadians about (1) their rights and responsibilities, (2) government policies, programs and services, and initiatives, and (3) dangers and risks to public health, safety or the environment. Advertising is one method used by government institutions to provide Canadians with information ranging from Health Canada's health promotion messages to recruitment initiatives for the Department of National Defence. The government uses public notice advertising to inform Canadians about health issues such as West Nile Virus, or regulatory issues such as broadcast license applications.

In 2002-2003, federal institutions spent approximately \$111 million on government advertising, including public notices, more than \$69 million in 2003-2004, and over \$49 million in 2004-2005. A number of factors have contributed to the recent decline in advertising expenditures:

- in 2003, the government announced a 15% reduction to be spent annually on media placement for the three fiscal years up to 2006-07, saving approximately \$12 million each year for a total savings of \$36 million by 2006-2007;

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- a government-wide moratorium on advertising was in effect from March 15 to June 2004 while the government implemented new measures aimed at strengthening the management of government advertising activities;
- government advertising was suspended during two federal elections from May to September 2004, and November 2005 to January 2006.

Previous audits and a follow-up review¹ related to PWGSC's advertising responsibilities had revealed significant weaknesses regarding the selection of the Agency of Record and advertising agencies, subcontracted work, payment of commissions, oversight of the AoR, the payment of invoices, documentation to support decisions, and the management control framework over advertising.

Action plans were developed to address the recommendations from previous two audits and follow-up review. In 2003, the government introduced a number of reforms to strengthen the management, transparency and coordination of government advertising.

Improvements under the advertising renewal

In 2002, a TBS-led review was launched as a result of the Auditor General's 2002 Audit of Three Contracts Awarded to Groupaction and PWGSC's 2000 Directed Audit of the Management of Sponsorships. The review was undertaken in collaboration with the former Communication Canada, PWGSC, PCO, and departments. Consultations were also held with industry, coordinated through the Association of Canadian Advertisers.

The government announced a number of measures to reform and improve the delivery and management of government advertising guided by transparency, accountability, value-for-money, and increased competition:

- eliminate the practice of assigning one advertising agency per department and increase the number of suppliers for advertising increasing competition;
- eliminate the content requirement that advertising firms be 100% Canadian-owned and establish the content requirement at 80 percent;
- following industry consultations, select and continue using an Agency of Record (AoR) to act as a central buyer for all government advertising;
- eliminate commission-based remuneration and provide payments based on hourly remuneration;
- strengthen internal capacity;
- issue an annual report on government advertising activities to increase transparency, and
- conduct an internal audit in 2005.

¹ 2003 Auditor General's *Government-wide Audit of Sponsorship, Advertising and Public Opinion Research*; PWGSC's *Follow-up Review of Advertising Activities*; and Consulting and Audit Canada's *Audit of Média I.D.A. Vision Inc. Agency of Record*.

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In January 2003, the Treasury Board (TB) made significant changes to the Contracting Policy services to bring contracting for advertising activities into the mainstream procurement process.

In May 2004, PWGSC issued new procurement tools for advertising services. In November 2004, the TB Communications Policy was amended to improve the management of the government's advertising activities, increase disclosure and transparency, improve links to Government priorities, reduce government spending on advertising, and clarify and document the roles and responsibilities for government agencies and institutions associated with the management of government advertising, including the transfer of Communication Canada's advertising responsibilities to PWGSC and PCO.

In 2005, a Commission of Inquiry into the Sponsorship Program and Advertising Activities was launched. The Commission published its report in November 2005 followed by its recommendations in February 2006.

Roles and Responsibilities in Government Advertising

The following is a brief description of the roles and responsibilities of the organizations involved in the government advertising process:

Privy Council Office (PCO) has the central role in the coordination and management of government advertising, as determined by the Prime Minister and Cabinet. The PCO is responsible for, among other things, chairing the Government Advertising Committee (GAC), developing, approving and monitoring the Government Advertising Plan, and recommending funding allocations under the Advertising Plan to Cabinet or its designated committee.

The GAC, chaired by the PCO Assistant Secretary to the Cabinet, includes the Directors General of Communications from various government departments, meets weekly as needed to review all major advertising campaigns being developed by departments and agencies to improve coordination and consistency.

The TBS coordinates, in conjunction with the PCO and GAC, the allocation and management of funds for government advertising, and the assessment and processing of Treasury Board submissions from federal institutions to release funding for approved advertising initiatives.

Individual federal institutions are responsible for planning and implementing advertising initiatives for their own mandates and programs. Institutions must obtain approval from PCO and funding from Treasury Board for their planned advertising activities and ensure that their advertising initiatives adhere to applicable legislation, policies and procedures. Institutions are also responsible for managing and paying for contracted advertising services, quality control, and for reporting their advertising activities and expenditures. The Corporate Services, Policy and Communications Branch within PWGSC carries out these responsibilities when managing the department's own advertising campaigns.

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PWGSC is responsible for contracting for advertising services on behalf of institutions. This responsibility includes ensuring the integrity of the contracting process for government advertising and managing the Agency of Record contract to buy media space and time for government institutions. PWGSC also coordinates government advertising by providing advice to institutions on advertising policies and procedures, reviewing institutions' requests for contracted advertising service, and managing an electronic information management system, which documents government advertising activities.

Within PWGSC, there are two separate directorates responsible for government advertising activities. The Communication Procurement Directorate (CPD) in Acquisitions Branch is responsible for delivering mandatory and optional contracting services to government departments and agencies (FAA Schedules I, I.1 and II only). The communications commodities procured through CPD include advertising (and advertising media placement), public opinion research, audiovisual and multimedia, printing, exhibits, event management and most other communications services.

The Advertising Coordination and Partnership Directorate (ACPD) in Government Information and Services Branch is responsible for:

- Providing support on advertising activities to departments and agencies, including advisory services, tools, guides and information sessions;
- Reviewing departmental media plans and statements of work;
- Maintaining AdMIS to track departmental advertising activities, including financial expenditures; and
- Publishing an annual report on advertising.

2 Findings, Conclusions and Recommendations

2.1 PWGSC as a common service provider - Enhancing the mechanisms used for the management of government advertising.

With respect to enhancing the mechanisms used for the management of government advertising, the audit expected to find that the department had established and implemented new tools for managing government advertising activities. Specifically, we expected that PWGSC would:

- establish procurement tools using a competitive process for the renewed advertising program;
- develop standardized procedures and guidelines and provide advice to client institutions;
- develop an information management system to record and track government advertising activities; and
- publish annual reports on the government's advertising activities.

2.1.1 Establishment of procurement tools using a competitive process.

The audit found that the integrity of the contracting process has improved since 2002. Procurement tools were established using a competitive process for the renewed advertising program in accordance with the reforms announced in April 2003 and in compliance with the significant requirements of the TB Communications Policy, the TB Contracting Policy, and the related requirements of the PWGSC Supply Manual. We found that PWGSC was in compliance with most requirements. A description of the competitive process for the selection of DISOs, SAs and the AoR is posted on PWGSC's website. Two exceptions were noted and are presented on page 11.

In the spring of 2004, PWGSC chaired a multi-department bid evaluation committee responsible for developing and implementing contracting tools for the renewed advertising program in accordance with the changes announced in 2003. In May 2004, the following contracting tools for the renewed advertising program were established:

- National and provincial Departmental Individual Standing Offer (DISO) agreements with suppliers for the purchase of advertising services for requirements under \$75,000;
- A Standing Offer agreement with suppliers for the purchase of advertising services for Public Notices;
- Supply Arrangements for advertising requirements between \$75,000 and \$750,000;
- Standard procurement processes to competitively obtain services for advertising requirements over \$750,000; and
- a new Agency of Record agreement for the purchase of media space for government advertisements.

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The audit found that the Canadian content requirement, previously set at 100 percent, was replaced with the current requirement that the firm providing the service be 80 percent Canadian-owned. This new practice is consistent with that of other government procurement practices and allows at least 80 percent of the value of the services rendered under advertising contracts will be performed in Canada. This change allows for greater competition by opening the solicitation process to a larger number of prospective bidders.

- **Standing Offers - Requirements under \$75,000:**
Following a competitive process, PWGSC awarded 33 Departmental Individual Standing Offers (DISOs) - 10 DISOs for national requirements for advertising campaigns delivered across Canada and a set of 23 provincial DISOs for advertising campaigns delivered within a province. The DISO instrument was established to competitively contract for advertising services when the advertising requirement is not expected to exceed \$75,000, excluding the purchase of media space. A second set of DISOs was awarded following a competitive process to two firms to supply government departments with production and placement services for Public Notice advertising. The DISO instruments commit the suppliers to provide services to client departments at prearranged prices, under set terms and conditions, when and if required. CPD issues call-ups against these Standing Offers when client departments require advertising services. We found that PWGSC manages the standing offer lists to ensure all suppliers are provided fair and equitable access to government advertising contracts.
- **Supply Arrangements - Requirements between \$75,000 and \$750,000:**
The audit found that PWGSC followed a competitive process in the awarding of Supply Arrangements (SAs) to 14 suppliers to provide a range of advertising services on an "as required" basis for advertising campaigns between \$75,000 and \$750,000, excluding the purchase of media space. The SAs are non-binding agreements between PWGSC and the supplier to provide advertising services to client departments when required. CPD manages the awarding of contracts for individual advertising assignments under the SAs using a mini-competitive process open to the 14 pre-qualified suppliers.
- **Set-aside for Aboriginal business - Requirements between \$5,000 and \$750,000:**
The audit found that PWGSC followed a competitive process in the awarding of a Supply Arrangement and a Standing Offer, both national in scope, that are "set-aside for Aboriginal Business" in accordance with the TB Aboriginal Business Procurement Policy. When an advertising procurement estimated at \$5,000 or more, and the advertisements are destined for a population that is primarily Aboriginal, the "set-aside" DISO and SA are used. Set-aside procurements are subject to the normal competitive principles of contracting policy and the set-aside DISO and SA contain the same terms and conditions as the standard advertising DISO and SA tools.

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- **Contracts for requirements over \$750,000:**
For advertising requirements over \$750,000, PWGSC established a requirement to use the government's competitive procurement process for issuing contracts using Request for Proposals (RFPs) published on the Government's electronic tendering system (MERX). The RFPs include full disclosure of all specific procurement information, mandatory and rated criteria, selection process and passing score.
- **Agency of Record:**
The audit also found that PWGSC followed a competitive process in awarding a new Agency of Record (AoR) agreement to a new supplier. The AoR acts as the government's agent for the negotiation and purchase of media space for government advertisements.

The following two exceptions were noted:

1) The government's Procurement Review Committee (PRC) is responsible for reviewing the socio-economic aspects of individual or aggregated procurements exceeding \$2 million for potential opportunities to support industrial and regional development, and other national objectives. The multi-departmental bid evaluation committee that oversaw the establishment of the SAs and DISOs did not submit the advertising procurement requirement to the PRC as required in the TB Procurement Review Policy. AB informed the auditors that: [*]

was fully documented in

PWGSC's records; and the bid evaluation committee apprised PWGSC senior management of their decision.

2) The Public Notice DISO agreement was signed by a PWGSC contracting officer who did not have the appropriate contracting authority. All other approvals were obtained and properly exercised

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2.1.2 Development of standardized procedures and guidelines and provision of advice to client departments.

The audit found that ACPD established standardized procedures and guidelines for the coordination and approval of institutions' advertising campaign proposals and media plans. ACPD provides ongoing advice to client departments on the government's advertising policies, approval process, procedures, authorized contracting tools, evaluation tools and methods, and on the use of the advertising management information system (AdMIS).

In 2004, ACPD developed and implemented standardized procedures for the approval of institutions' advertising campaign proposals ('registration' numbers) and media placement plans ('ADV' numbers). ACPD produced guidelines and procedures for each of the major activities for the management of an advertising campaign. These guidelines and procedures were provided to government institutions subject to the Communications Policy along with an automated evaluation tool for post-campaign testing of the effectiveness of advertising campaigns.

We found that ACPD provides ongoing advice and training to client department communications officers on the government's advertising policies, approval and processing procedures, authorized contracting tools, campaign evaluation requirements and methods, and on the use of the AdMIS system.

2.1.3 Progress in developing a management information system to record and track government advertising.

In 2003, the Auditor General reported that the former Communication Canada maintained a database of departments' requisitions for advertising contracts and that PWGSC maintained a database of the contracts. Because invoices for advertising services are paid by individual departments, Communication Canada's and PWGSC's databases did not have a record of actual expenditures. At that time, the data on advertising expenditures was assessed as unreliable given that they captured only the value of the requisitions of the contracts.

The audit found that ACPD has complied with the TB Communications Policy requirement to develop and maintain a database system to record and track government advertising activities. In 2004, ACPD developed a multi-user on-line system for advertising activities and maintains its functionality and reliability.

The first release of the Advertising Management Information System (AdMIS) was issued in April 2005. ACPD is exploring upgrading the system to add new reporting capabilities. In accordance with the TB Communications Policy, client institutions are responsible to "ensure that the information compiled in AdMIS is complete, including all estimates, contracts, amendments to contracts, and information on expenditures." However, early reporting in AdMIS by institutions has not always met this requirement such that AdMIS,

as a whole, is not yet sufficiently mature to be a reliable single source of advertising information.

2.1.4 Publishing of annual reports on government advertising.

Effective April 1, 2004, responsibility for producing and publishing an annual report on the government's advertising activities was transferred from Communication Canada to the Advertising Coordination and Partnership Directorate (ACPD).

The audit found that ACPD publishes annual reports on the government's advertising activities as required by the TB Communications Policy. The annual reports are posted on PWGSC's web site.

We examined ACPD's documented procedures for producing the "Annual Report of GoC Advertising Activities for 2004-05" and noted that controls are in place to ensure that reported information is accurate and complete. We noted that, while the AdMIS system has the capacity of producing reports on each institutions advertising expenditures, the AdMIS was not used as a source of information for the 2004-2005 report given that the system became operational only in April 2005 and did not contain advertising activity for the previous fiscal year. We found that ACPD has implemented alternative means - self reporting by government departments of their respective advertising information - for the production of annual reports to ensure that reported information on advertising expenditures is complete and accurate. As institutional reporting in AdMIS improves, there may be opportunities for AdMIS to support and facilitate the production of the Annual Report.

2.2 PWGSC as a common service provider - Processing government advertising contracts in accordance with policy requirements.

With respect to the processing of government advertising contracts, the audit expected to find that the department had complied with all policy requirements when processing client departments' requests for the procurement of advertising services and the purchase of media space for the government's advertising needs. Specifically, we expected that PWGSC would:

- review and approve the scope of work for client department advertising initiatives and the media plans for advertising media placement requests;
- process approved advertising services and advertising media placement requests from client institutions using the appropriate procurement tool; and
- monitor the activities of the Agency of Record to ensure the contract terms are respected.

2.2.1 Processing of requests for advertising services and media placement.

We found that GISB's internal practice for recording and documenting their approval of client institution advertising production and media placement requests varied during 2004-2005, although all files contained sufficient information to explain the rationale behind the decisions made. We noted improvements with the level of documentation in the 2005-2006 files we examined.

ACPD issued 62 contract registration numbers to client institutions for advertising production proposals and 372 media placement authorizations (ADV numbers) between May 21, 2004 and March 31, 2005. We performed detailed testing on 100% of these transactions.

In September 2005, ACPD introduced more rigorous internal procedures for documenting the approval of media placement requests. We extended our testing of ADV numbers to a judgmental sample of 87 of the 500 ADVs ACPD issued between September 1, 2005 and March 9, 2006 to test GISB's compliance with these revised procedures. For the most part, we found that the 2005-2006 files were complete and contained appropriate documentation as compared to the 2004-2005 files.

We examined advertising production files and ADV files for evidence that ACPD was performing reviews required by the TB Communication Policy prior to approving clients' requests. ACPD is required under this policy to validate that client requests have been approved by the PCO and to review the clients' statement of work (SOW) and media plan for compliance with GISB's published standards prior to approving the requests. Documentation issues were noted during our examination and brought to the attention of ACPD management.

- At the time of the audit, ACPD's procedures for the verification of PCO approval included a visual check against the list of PCO approved campaigns and a notation of the verification on the files' approval checklist. We found physical evidence of the PCO approval on a number of files and our tests revealed that all the campaigns had been approved by the PCO. At present, ACPD procedures require that a copy of the PCO approval notification be included in each file.
- At the time of the audit, ACPD's procedures for the review and approval of client requests included a review of the SOW or media plan documents against the published standards, advising clients if the request was approved or required additional information and a notation of the review results on the files' approval checklist. We found physical evidence of the review on a number of files. At present, ACPD internal procedures require that physical evidence of their reviews be included in each file.

2.2.2 Contracting for approved advertising production and media placement requirements.

From May 21, 2004 to January 16, 2006, CPD issued a total of 103 contracts for advertising production services and 721 AoR media placement work authorizations on behalf of client departments for a total value of \$76 million. These contracts consisted of:

- advertising production services under \$75,000 to pre-qualified suppliers under the DISO: 43 call-ups totaling \$970,000;
- public notice production and placement to pre-qualified suppliers under the Public Notice DISO - 43 call-ups totaling \$330,000;
- advertising production services valued between \$75,000 and \$750,000 following a competitive process among all pre-qualified suppliers under the Supply Arrangement - 16 contracts totaling \$4.8 million;
- advertising production services following a competitive process using MERX - 1 contract valued at \$3.4 million; and
- work authorizations to the Agency of Record under the AoR contract - 721 media placement valued at over \$66.4 million.

With respect to examination of production contracts, call-ups and AoR media placement work authorizations:

CPD's processing of client requests for contracting of advertising production and media placement services were examined and tested for compliance with provisions of the TB Contracting Policy, the PWGSC Supply Manual, and the terms and conditions of the respective procurement tools. All 103 contracts for advertising production services and a sample of 190 of the 721 (26%) work authorizations representing over \$49 million (75%) of the total value of work authorizations were tested.

For the most part, the sampled files complied with policy and contract provisions. We found that 18% did not comply with one or more requirements, which we assessed as non-systemic in nature. These issues were discussed with CPD management. We noted two types of mandatory requirements that were not complied with. However, the incidence rate was low and was not widespread:

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- 1) Delegated contracting approval and signing authorities were sometimes exceeded:

In our sample of transactions, we noted that, in 5 out of 103 advertising production transactions and in 3 out of 190 work authorizations, the contractual instruments were signed by individuals who did not have the appropriate contract signing authority² or were approved by an individual without the appropriate delegated contract approval authority³. These errors occurred on contractual instruments ranging from \$15,277 to \$86,135. The incidence rate of these errors does not suggest that the problem is widespread. Nonetheless, several contracts were either approved and/or signed by individuals who did not have the required delegated contracting authority.

- 2) Incomplete client requisitions were accepted and processed:

Our tests found that CPD processed 10% of client requisitions for advertising production transactions and work authorizations without ensuring that the requisitions were signed by the client certifying, under section 32 of the *FAA*, that funds were available and appropriately committed in the institution's financial system. CPD accepted 29 requisitions on the basis that the requisitions had been signed by the client certifying that all internal approvals had been obtained, which CPD accepted as the clients' section 32 certification.

Section 32 of the *FAA* states "No contract or other arrangement providing for a payment shall be entered into unless there is a sufficient unencumbered balance available out of the appropriation or item to discharge any debt ... under the contract ...". [*]

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² **Contract signing authority:** The authority delegated by the Minister to the incumbent of a position to sign on, his/her behalf contract, contract amendment or Standing Offer documents after ascertaining that the approval authority has been duly granted and ensuring that the terms and conditions written in the documents reflect those approved by the contract approval authority.

³ **Contract approval authority:** The authority delegated by the Minister of PWGSC to the incumbent of a position to approve, on his/her behalf, submissions to enter into contracts, to amend contracts or to issue Standing Offers up to specified dollar limits subject to the applicable legislation, regulations, PWGSC General Conditions and procedures in effect at such time, and constitutes approval to accept the terms and conditions stipulated in the submission on behalf of the Crown.

With respect to advertising Contract Quality Assurance:

Between September 2004 and January 2006, the Contractual Risk and Quality Control Unit in PWGSC's Acquisition Program Integrity Sector performed detailed post-award quality assurance reviews on all advertising contracts issued by PWGSC, including all SA contracts, DISO call-ups and AoR work authorizations.

The stated objective of the contract quality assurance (QA) review was to verify and ensure that the contracting mechanisms for delivery of advertising services were in accordance with the applicable procurement tool, that departmental policies were followed, and that the principals of good purchasing practices were met.

While the QA review found that all of CPD's contract files were error free, our audit tests noted that the QA testing did not include all TB contracting policy requirements. PWGSC is currently implementing a more rigorous QA process covering PWGSC contracts.

2.2.3 Administration of the AoR contract.

The audit found that ACPD has established controls and followed internal management controls and procedures to manage the government's contract with the AoR.

A new AoR contract was issued to a new supplier on May 21, 2004. We noted that the agreement between the Crown and the new AoR contains specific clauses relating to (1) the approval processes required for all AoR initiated changes to the media purchase plan and (2) the Crown's right to perform regular cost savings audits, ad hoc audits of the AoR's compliance with the contract terms, and evaluations to assess the effectiveness and service of the AoR.

In June 2004, ACPD began putting in place monitoring and control processes for the management of the AoR contract. Our audit found that ACPD's procedures and controls to ensure PWGSC meets its responsibilities under the AoR contract are rigorous and functioning as intended. Over time, these tools evolved into the process we examined, which has been in place since November 2005. These controls include:

- a resource dedicated to monitor the AoR's performance and compliance with the terms of the contract;
- regular reports and meetings with the AoR;
- periodic reviews and audits of the AoR's performance as required under the AoR contract. A performance review to assess the performance of the AoR, analyze the competitiveness of the AoR advertising rates, the impact of late approvals on cost efficiencies has been completed. A third-party audit of the AoR's performance has been initiated;
- regular reporting on the status of ACPD responsibilities under the AoR contract.

2.3 PWGSC as a client department - Compliance with policy requirements for the management of its own advertising projects

With respect to compliance with policy requirements for the management of its PWGSC's advertising projects the audit expected to find that PWGSC would:

- establish departmental policies and procedures for managing PWGSC advertising campaigns in accordance with the relevant provisions of the TB policies; and
- manage PWGSC advertising campaigns and initiatives in accordance with the departmental policies and procedures and in compliance with TB policies and the FAA.

2.3.1 Establishment of an internal framework for the management of its advertising activities.

The audit found that PWGSC established policies and procedures for ensuring that their advertising campaigns and expenditures are approved, documented and disclosed in accordance with established policies. The departmental advertising policy was last updated in 2004.

We noted that PWGSC established a departmental framework for the management of departmental advertising responsibilities. A detailed analysis of PWGSC's communications framework determined that all departmental responsibilities specified in the TB Communications Policy of the Government of Canada are adequately and appropriately covered.

The communications framework includes clear internal responsibilities for the coordination of PWGSC's advertising initiatives. The Communications Sector within PWGSC's Corporate Services, Policy and Communications Branch has the delegated responsibility to coordinate PWGSC's own advertising campaigns. The framework consists of a policy, the Departmental Policy on Advertising (DP 048), and documented procedures for planning, approving and managing departmental advertising requirements and initiatives. The framework requires that PWGSC use the standard Automated Buyer Environment (ABE) system to record advertising procurement activity and the AdMIS system to record advertising campaign activities.

We noted that PWGSC's policy (DP 048), was updated in April 2004 to reflect the December 2003 changes to the TB Contracting Policy. However, the policy has not been updated to reflect the November 2004 changes to the TB Communications Policy of the Government of Canada that departments obtain pre-approval from the Privy Council Office and the Government Advertising Committee for all planned advertising initiatives.

The Communications Sector is analyzing the recent August 2006 modifications to the TB Communications Policy of the Government of Canada and the TB Contracting Policy to

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determine the effect on the departmental policy and communications framework with a view to update the departmental policy.

2.3.2 Compliance with GoC requirements for PWGSC's advertising activities.

The audit found that PWGSC met the relevant requirements under the TB Communications Policy, TB Contracting Policy and the *Financial Administration Act* for PWGSC-managed advertising campaigns during the period examined.

Other than the placement of statutory Public Notices, PWGSC conducted only one advertising campaign during the period examined: the "E-Services Pilot" advertising campaign for the Government-on-Line project. A detailed examination of the project and contract files maintained for the E-Services Pilot campaign was performed as part of this audit.

We noted that PWGSC complied with the relevant provisions of the TB Communications Policy and the TB Contracting Policy in the management of the E-Services Pilot advertising campaign. We found that the PWGSC campaign manager had maintained the appropriate documentation in the project management files to support the decisions made and funds expended for the advertising campaign, including copies of all internal and PCO approvals for the campaign.

Our examination of the invoices paid to the suppliers under the contracts found that the invoices were adequately supported with evidence of deliverables, and conformed to the basis of payment provisions in the respective contracts. We also found that the invoices were reviewed and approved prior to payment pursuant to Section 34 of the FAA by a PWGSC officer with the appropriate delegated financial signing authority.

Recommendations

It is recommended that:

Assistant Deputy Minister, Acquisitions Branch:

1. *Ensure that all contract requisition forms received from client institutions contain the client's certification under Section 32 of the FAA that funds for the services being requested are available before entering into contracts.*
2. *Ensure that all advertising contracts are approved and signed by procurement officers with the appropriate delegated contracting authority.*

Assistant Deputy Minister, Government Information Services Branch:

3. *Review the process for the production of the Annual Report of GoC Advertising Activities to determine if there are opportunities for AdMIS to support and facilitate the production of the annual report.*

Assistant Deputy Minister, Corporate Services, Policy and Communications Branch:

4. *Update PWGSC's departmental advertising policy, and related internal processes and procedures, to ensure they accurately reflect PWGSC's responsibilities for the management of its internal advertising initiatives under the TB Communications Policy of the Government of Canada and the related TB Communications Policy Procedures.*