

SECTION SEVEN

**DETAILED FINDINGS—
ADVERTISING**

7.1

Sources of Funds for Advertising Contracts

Funds for advertising are allocated to departments through the budgeting process described in Section 4.I.

7.2

Use of Advertising Funds

7.2.1 Flow of Funds to the Advertising Agencies

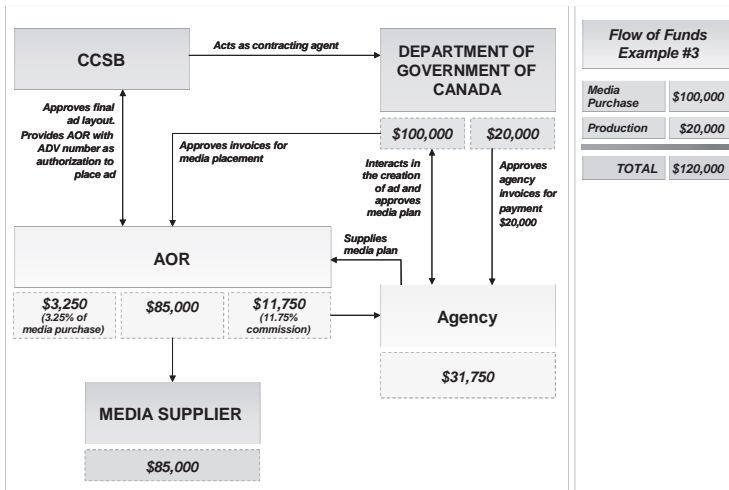
Unlike SPS contracts, where the procurement of the services and the approval of invoices was managed by the same group of individuals within CCSB, in advertising there is also a role played by the advertising staff within each government department.

Advertising for departments is funded from departmental budgets. Those individuals working on a departmental advertising project report to others within their own department. This division of duties provides an extra level of checks and balances within advertising activities that was absent in the management of SPS contracts. The exceptions were those departments, including CIO and CMHC, which in some instances used CCSB to manage their advertising contracts as well providing contracting services.

In addition to issuing a Direction to the AOR for media purchases CCSB contracted with the agency selected for the department through the agency selection process for production work. The department then worked directly with the agency in creation of both the advertisement and the media plan.

The diagram below sets out the flow of funds and the areas of responsibility for CCSB and for the government department as it relates to advertising.

Table 46: Areas of Responsibility for CCSB and Government Departments Related to Advertising



Directions for media purchases were primarily with the AOR, either Genesis Media (from April 1, 1994 to March 31, 1998) or Média/I.D.A Vision (from April 1, 1998 to March 31, 2003). The communication agency managing a particular advertising contract was responsible for preparing a

media plan which outlines the location, duration and type of media to be purchased. Payment for this work was in the form of a commission of 11.75% calculated on the gross amount of the media purchases. Payment was made to the communication agency by the AOR. The communication agency commission of 11.75% and the AOR commission of 3.25%, a total of 15% was included in the gross cost of media purchases billed to the GOC by the AOR.

7.2.2 Advertising Contracts

Kroll has prepared the listing of advertising contracts primarily from listings of contract information provided electronically by the OAG and listings of contract information located in the records produced by PWGSC to the COI. Additional contract information has been derived from listings produced by the departments and agencies, listings produced by Mr. David Myer, former Director General of Procurement at CCSB, the working papers of Ernst and Young related to their report entitled "Advertising and Public Opinion Research Sector, Compliance Audit of Contracting Processes, Final Report" dated November 1996, and contracts located during the course of our review. Where details in the contract differed from those on the listings, we have amended the listings. Our detailed listing summarized by year (Schedule 8), by department (Schedule 9) and by agency (Schedule 10) are attached.

7.2.3 Nature of Advertising Expenditures

Of the approximately \$1.1 billion contracted for advertising between April 1, 1994 and March 31, 2003, 53% was contracted for media purchases. Media purchases included the purchasing of print advertising space in newspapers, billboard space, magazine advertising, and television and radio airtime.

The balance of the advertising contracting was for agencies' services including production costs and advertising sponsorships relating to the advertising program. Sponsorships were undertaken by GOC departments and funded from department budgets, for example, Health Canada provided funds for the Senior Community Garden Program in 1998, the International Year of Older Persons. Production costs could include such items as time spent meeting

with departmental representatives to discuss concepts, preparation and presentation of mockups and/or scripts, revisions to the message or approach, presentation of actors or models to be used and the overseeing of ad production and focus group testing.

We understand from discussions with department personnel that contracts for advertising services were often issued on an "as and when requested" basis, thus the entire amount contracted was not necessarily expended by the department.

7.3

Analysis of Selected Advertising Contracts

7.3.1 Advertising Contracts Sampled

Kroll undertook a detailed review of invoices and underlying supporting documents for a sample of selected advertising contracts taken from our detailed listing. Our sample was chosen judgmentally and included contracts awarded to those agencies that received a large dollar amount of the advertising contracted by the GOC, those agencies that received significant sponsorship contracts and those departments that had significant, by dollar value, advertising contracts. The sample included the years 1996-97 through 2001-02.

Table 47 lists the contract values by year for the contracts in the Kroll sample:

Table 47: Summary of Selected Advertising Contracts Reviewed by Kroll
(\$ millions)

<u>Fiscal Year</u>	<u>Total</u>
1996-97	10.11
1997-98	16.17
1998-99	5.30
1999-00	4.30
2000-01	3.67
2001-02	<u>6.77</u>
Total	<u>\$46.32</u>

A detailed listing of the contracts reviewed is attached as Schedule II. Table 48 provides the listing of contracts reviewed summarized by agency.

Table 48: Summary of Selected Advertising Contracts
Reviewed by Kroll by Agency
(\$ millions)

<u>Agency</u>	<u>Total</u>
Vickers and Benson	21.83
BCP	5.50
Groupaction	4.69
Armada	3.38
Compass	2.10
Gingko	2.04
Groupaction Gosselin	1.47
Groupe Everest	1.46
Gosselin	1.20
Ensemble Consortium	1.00
Lafleur	0.83
Coffin	<u>0.82</u>
Total	<u>\$46.32</u>

Table 49 provides a breakdown of the same information in Table 47 and Table 48 by GOC department.

**Table 49: Summary of Selected Advertising Contracts
Reviewed by Kroll by Department
(\$ millions)**

<u>GOC Department</u>	<u>Total</u>
Canadian Tourism Commission	22.51
Canada Information Office	6.79
PWGSC	4.68
Industry Canada	3.24
Finance	3.00
Health Canada	1.79
Federal Office for Regional Development (Québec)	1.05
Defence	1.00
Heritage Canada	0.76
Canadian Firearms Centre	0.74
Revenue Canada	0.44
Human Resources Development	<u>0.32</u>
Total	<u>\$46.32</u>

7.3.2 Analysis of Advertising Agency Services Including Production Costs

Advertising Service Costs

Table 50 summarizes our findings for the sample of advertising service contracts reviewed by Kroll.

**Table 50: Summary of Selected Advertising Contracts Reviewed by Kroll
(\$ millions)**

	<u>Total</u>	<u>Percentage</u>
Sponsorships	0.46	1.0%
Amounts Invoiced for Work Done by Agencies and Related Parties		
Agency Sponsorship Commissions	0.05	
Agency Production	0.03	
Agency Time Charges	2.88	
Agency Commissions on Subcontracted Amounts	1.92	
Amounts Subcontracted to Related Party	<u>3.46</u>	
Total Invoiced for Work Done by Agencies and Related Parties	8.34	18.0%
Subcontracted to Unrelated or Unknown Parties	26.00	56.1%
Unspent Amounts or Invoices Not Located	<u>11.52</u>	<u>24.9%</u>
Total Contract Value	<u>\$46.32</u>	<u>100.0%</u>

With reference to Table 50 we note the following:

Sponsorship

Agencies' invoices to GOC departments included invoices in relation to sponsorship or visibility initiatives undertaken by GOC departments. Our sample included:

- \$150,000 invoiced by Lafleur to Health Canada in relation to the sponsorship by Health Canada of the Senior Community Garden Program for 1998. Lafleur charged the department a commission of 15% (\$22,500).
- \$200,000 invoiced by Groupaction in relation to the sponsorship of the "J'arrête, j'y gagne" initiative in 2001. Groupaction contracted with PWGSC for this sponsorship and received a 12% commission.
- \$27,500 invoiced by Armada to the Federal Office for Regional Development (Québec) for "publicité et visibilité pour le Gouvernement du Canada lors de L'International Bromont du 20 au 24 juin 2001".

Agency Sponsorship Commissions - \$0.05 million

Where a sponsorship commission was indicated on the invoice to the GOC the commission rate was 12% to 15%.

Agency Time Charges - \$2.88 million

Agencies' invoices to GOC departments included invoices for time charges totaling \$2.88 million. In some instances the rate charged to PWGSC agreed with the stipulated rates in the contracts, in others there was insufficient detail available for us to make a determination. In still other instances, the invoices from the communication agency provided only a lump sum amount for agency fees based on approved estimates rather than actual hours worked.

Commissions on Subcontracted Amounts - \$1.92 million

For the selection of contracts reviewed by Kroll, payments to the communication agencies for commissions on subcontracted amounts totaled \$1.92 million.

Amounts Subcontracted to a Related Party - \$3.46 million

For the contracts in our sample, we determined a total of \$3.46 million was spent for services subcontracted to related parties compared to \$26.0 million sub-contracted to unrelated parties.

We noted 13 contracts involving nine agencies where commissions were charged on amounts subcontracted to related parties. In total for our sample \$440,000 was paid in commissions for work subcontracted to related parties.

Amounts Subcontracted to Unrelated or Unknown Parties - \$26 million

For the sample reviewed, payments to unrelated or unknown parties totaled \$26 million or 56% of the contracted amount. During the course of our review we noted:

- In 2001, PWGSC entered into a contract with Compass totaling \$1.6 million for which the scope of work was described as "Management production and design for the development of "Canada House Pavillions" at the "Jeux de la Francophonie" and the "World Athletics competition". Of the \$1.6 million, \$1.35 million was subcontracted to unrelated parties.

Compass invoiced PWGSC for costs associated with the Canada Pavillion at the 2001 Grey Cup as well as the two events noted in the contract.

Jeux de la Francophonie, the World Athletics Championships and the Grey Cup were events which also received support through SPS contracts.

- In January 1998 Industry Canada entered into a \$1.2 million

dollar contract with Gosselin for the sponsorship of "Campaign SOS 2000". Gosselin invoiced Industry \$1,110,000 for sponsorship and \$90,000 as agency commission. Gosselin in turn subcontracted substantially all of the \$1,110,000 sponsorship to Cossette. Cossette's billing to Gosselin was primarily for media placements.

Unspent Amount or Invoices Not Located

We were unable to locate invoices related to \$11.5 million or 24% of the contract value of our sample. In some instances we were able to determine from other documentation or with the assistance of the departments that the full amount of the contract had not been spent.

