



Canadian Tourism Commission

Presented to the Executive
Committee of the Board of Directors

11 April 2006

Special Examination Report



Office of the Auditor General of Canada
Bureau du vérificateur général du Canada



Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

To the Executive Committee of the Board of Directors of
The Canadian Tourism Commission

We have completed the special examination of the Canadian Tourism Commission in accordance with the plan presented to the Audit Committee of the Board of Directors on 16 August 2005. As required by Section 139 of the *Financial Administration Act* (FAA), we are providing the Executive Committee of the Board of Directors with the attached final report on our special examination.

We will be pleased to respond to any comments or questions you may have concerning our report at your meeting on 11 April 2006.

I would like to take this opportunity to express my appreciation to the board members, management, and the Corporation's staff for the excellent co-operation and assistance they offered us during the examination.

Yours sincerely,

A handwritten signature in black ink that reads 'Douglas Timmins'.

Douglas G. Timmins, CA
Assistant Auditor General

Attach.

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Canadian Tourism Commission

Special Examination Report

Special Examination Opinion

1. Under Part X of the *Financial Administration Act*, the Canadian Tourism Commission is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that its assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.
2. The Act also requires the Commission to have a special examination of these systems and practices carried out at least once every five years.
3. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination, from June 2005 to November 2005, there were no significant deficiencies in the systems and practices we examined. As a result of the Commission's relocation of its headquarters, many employees left the organization on or after 26 July 2005. Our opinion is limited to those systems and practices that were in place before that date.
4. We based our examination plan on a survey of the Commission's systems and practices, which included a risk analysis. We submitted the plan to the Audit Committee of the Board of Directors on 16 August 2005. The plan identified the systems and practices that we considered essential to provide the Commission with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. Those are the systems and practices that we selected for examination.
5. The plan included the criteria for the special examination that we selected specifically for this examination in consultation with the Commission. The criteria were based on our experience with performance auditing. Our choice of criteria was also influenced by legislative and regulatory requirements, professional literature and standards, and practices followed by the Commission and other

organizations. The systems and practices we examined and the criteria we used are listed in the Appendix.

6. We conducted our examination in accordance with our plan and with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants. Our examination included the tests and other procedures we considered necessary in the circumstances. In carrying out the special examination, we relied on the internal audit of corporate governance and planning practices.

7. We found significant deficiencies in the Commission's systems and practices relating to two areas: strategic management, and planning and accountability for marketing activities. For strategic management, we found that the Commission's key accountability documents did not demonstrate how the Commission is fulfilling its mandate. In addition, weaknesses in the performance measurement system seriously hinder the Commission's ability to demonstrate the extent to which it is achieving its corporate objectives.

8. For marketing activities, we found that it was not clear whether the market research conducted fully met the Commission's strategic information needs. The marketing plans and individual project files do not always reflect how the results of market research were used or were not used. The Commission does not have an accountability framework for individual marketing projects to ensure that these marketing programs support its corporate objectives. We also found that the Commission does not regularly evaluate completed projects against program goals.

9. In our opinion, except for the significant deficiencies described in the preceding paragraphs, based on the criteria established for the examination, there is reasonable assurance that there were no significant deficiencies in the systems and practices we examined.

10. The rest of this report provides an overview of the Commission and more detailed information on the significant deficiencies noted above and other examination findings.



Douglas G. Timmins, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
25 November 2005

Key Messages

As stated in our special examination opinion, we concluded that during the examination period, except in the areas of strategic management, and planning and accountability for marketing activities, the Commission designed and operated its systems and practices to provide reasonable assurance that

- assets were safeguarded and controlled,
- resources were managed economically and efficiently, and
- operations were carried out effectively.

There will likely be some disruption in systems and practices after the move of the Commission's headquarters from Ottawa to Vancouver because of the large turnover of staff. Because we completed our fieldwork before the move and only examined systems and practices in Ottawa and the foreign offices, our report covers only the systems and practices that were in place before the move.

As outlined in our special examination opinion, we found that the Commission's key accountability documents, the corporate plan and annual report, did not demonstrate how the Commission is fulfilling its mandate by clearly linking

- corporate objectives,
- an analysis of the business environment,
- an assessment of the Commission's strengths and weaknesses,
- strategic priorities, and
- resource requirements.

Many participants in the tourism industry can have an impact on the tourism sector. Therefore, it is difficult to link the results in the tourism sector directly to the efforts of the Commission. Nevertheless, it is important to report against corporate objectives to meet accountability expectations. We found weaknesses in the performance measurement system, such as a lack of clearly defined measures for all key activities applied throughout the organization.

We also found that it was not clear whether the market research conducted fully met the Commission's strategic information needs. In many cases where market research has been done, the marketing plans and individual project files do not reflect how the results were used or were not used. The Commission does not have an accountability framework for individual marketing projects to ensure

that they support its corporate objectives. Specifically, the Commission does not ensure that all projects have documented objectives, rationales, links to the strategic priorities and corporate objectives, or risk analyses. We also found that the Commission does not regularly evaluate completed projects against program goals.

In other areas, we found that the Commission has

- the core elements of a good governance framework in place;
- research and marketing activities that provide information to meet the needs of the industry and to support the Commission's strategic and operational objectives;
- systems and practices to manage its operational information needs;
- the necessary systems and practices to manage its human resources and ensure that it has an adequate number of competent employees in the right places, doing the right things at the right time; and
- designed the procurement policy and partnering guidelines to ensure the economic, efficient, and effective acquisition of goods and services, to meet defined requirements.

In addition, there are opportunities to enhance the quality of the Commission's systems and practices. In our view, the Commission needs to focus its efforts on

- conducting ongoing formal risk assessments of major initiatives and projects, presenting them to senior management and the Board, and implementing its plan to update the enterprise risk profile annually;
- developing monitoring mechanisms for conflict of interest for Board members and reporting formal analysis of the members' conflict of interest declarations to the Chair;
- applying a formal quality-control process to all research activities and conducting periodic assessments of the value and relevance of these activities; and
- identifying critical key-information records and developing systems and practices to ensure that these records are retained and safeguarded.

Overview of the Canadian Tourism Commission

The Canadian Tourism Commission was created in 1995 as a special operating agency within Industry Canada. In 2001 it was made a Crown corporation under the *Canadian Tourism Commission Act*. The Commission reports to Parliament through the Minister of Industry. The Commission's mandate is to work with the governments of the provinces and the territories and the Canadian tourism industry to promote the interests of that industry and to market Canada as a desirable tourist destination. The Act prescribes four objectives for the Commission:

- sustain a vibrant and profitable Canadian tourism industry;
- market Canada as a desirable tourist destination;
- support a co-operative relationship between the private sector and the governments of Canada, the provinces, and the territories, with respect to Canadian tourism; and
- provide information about Canadian tourism to the private sector and to the governments of Canada, the provinces, and the territories.

The Commission's vision is to "compel the world to explore Canada." Its mission is to "harness Canada's collective voice to grow export revenues." Tourism is considered an export revenue as it adds to the Canadian economy. It also provides employment in both urban and rural communities.

The Commission follows a business model that is industry-led, market-driven, and research-based. A 26-member Board of Directors manages the Commission, which is operated in partnership with the public and private sectors. The Board

- establishes policies and direction;
- approves strategic direction and the subsequent allocation of resources; and
- appoints working committees, from industry leaders in the private sector that act as advisors to the Board.

At the end of 2004, the Commission employed 156 staff—about 60 percent are headquarters staff engaged in marketing, in research activities, and in providing corporate and information services. The remaining employees work in Commission offices around the world.

The Commission operates in 11 markets and 10 countries and has offices in Asia, Australia, Europe, Latin America, and the United States.

Key activities

The Commission undertakes activities in two key functional areas: marketing and research.

The objectives of the marketing function are to

- establish partnership opportunities,
- raise awareness of Canada as a travel destination, and
- help partners close sales.

The Commission conducts research activities to

- raise the awareness and acceptance of tourism as an investment and a key economic sector;
- provide critical information to the Canadian tourism industry, so it can make informed business decisions;
- identify partnership opportunities;
- promote international standards; and
- share data and analyses with other countries.

The Commission also has support and administrative functions that include human resources, corporate communications, finance, procurement, and information services.

The Commission receives an annual Parliamentary appropriation of approximately \$79 million for program and operating costs. In 2005, the Commission was to receive \$7 million for a key initiative and \$17 million to move its headquarters from Ottawa to Vancouver.

Business environment

The Canadian tourism industry comprises more than 150,000 businesses across Canada, including

- private sector enterprises, most of which fall in the category of small- or medium-sized enterprises; and
- government entities, such as provincial, territorial, and municipal tourism departments and agencies; meeting, convention, and visitor bureaus; industry associations; and museums, heritage sites, and parks.

Because the efforts of all the businesses in the industry have some impact on the tourism sector, it is difficult to link the efforts of the Commission to the results it is trying to achieve.

Canada's total tourism revenue for 2004 was \$57.5 billion. Tourism revenue is generated by

- international visitors travelling to Canada and through Canada on their way to other countries;
- Canadians travelling in Canada and on their way to other countries; and
- Canadians spending before and after trips within Canada and on their way to other countries.

In partnership with Statistics Canada, the Commission tracks revenue generated by targeted market regions and overnight visitors that are the focus of its major marketing programs (Exhibit 1).

Exhibit 1 Sources of tourism revenue for 2004

Origin of visitors	Revenue (\$ billions)
Overnight visitors from Canada	\$20.2
Overnight visitors from the United States	8.2
Overnight visitors from Europe and Latin America	3.2
Overnight visitors from Asia and Australia	1.9
Overnight visitors—from other parts of the world	0.3
Sub-total of overnight visitors	\$33.8
Other*	23.7
Total tourism revenue	\$57.5

*Includes spending by Canadians and international visitors on day trips in Canada, pre- and post-trip spending by Canadians taking domestic trips, in-Canada expenditures of outbound Canadians, as well as international fares paid to Canadian carriers.

Canada competes for tourist revenue with many other countries. The Commission has identified Australia, France, Germany, the United Kingdom, and the United States as its five key competitors among established tourist destinations. It currently has offices in each of these countries. The United States is the only country that does not have a federally-funded international tourism marketing office or program. Among the emerging markets, Canada faces competition from India and China, as well as Mexico, South Korea, South Africa, Vietnam,

and Guatemala. The Commission has offices in China, Mexico, and South Korea.

According to the World Tourism Organization (WTO), Canada is one of the most popular destinations in the world. However, Canada has lost market share to some of its key competitors in the last five years. The WTO reports that in 2004, Canada ranked twelfth in terms of both international tourist trips and revenues, down from seventh and tenth, respectively, in 2002.

Many factors that impact tourism are beyond the Commission's control. Over the past five years, the Canadian tourism industry has sustained a series of external shocks including the health-related issues of SARS, mad cow disease, and West Nile virus; and concerns over terrorism and the United States' war in Iraq. More recently, rising exchange rates, increased fuel prices, airline capacity, and the United States' passport initiative have impacted the tourism industry. Technological changes, such as the increase in electronic commerce and electronic marketing, the internet, and database technology for managing customer information also impact the industry.

Key strategies

As outlined in its 2005 strategic plan, the Commission is concentrating its resources in markets with the greatest potential by

- delivering a new "Brand Canada,"
- stimulating in-bound travel from select markets through a five-year partnership with a large corporation,
- increasing business with non-traditional partners and forming partnerships with non-traditional advertising channels,
- using sales and marketing tools through e-business activities, and
- developing comprehensive corporate performance measures.

The new Brand Canada is a key marketing activity, designed to increase Canada's appeal as a tourist destination for international travellers.

The Commission will be upgrading its technology infrastructure and its main Web sites to improve the way it distributes information and gathers market intelligence, and to support a marketing approach that places greater emphasis on electronic media and Web marketing. The new Web strategy, estimated to cost \$7.6 million in the first five years, will be a significant financial undertaking for the Commission.

Key challenges

On 31 March 2005, the Prime Minister announced the relocation of the Commission's headquarters to Vancouver. This move is the largest operational challenge facing the Commission in 2005. Nineteen of the ninety-six headquarters staff agreed to move with the Commission to Vancouver, with the remaining positions to be staffed before and after the move at the end of November 2005. The Commission took the opportunity to reorganize and, by the end of October, filled the key executive positions and many senior manager positions. Staffing for operational and administrative support positions continued after the move to Vancouver. The office in Vancouver opened 5 December 2005.

The Commission identified the level of funding it receives in its annual Parliamentary appropriation as a significant business risk. The Board addressed this risk by setting up a separate task force. The Commission hired an independent consultant to prepare a business case to support its request for increased long-term funding.

Findings and Recommendations

Strategic management

Since it became a Crown corporation five years ago, the Canadian Tourism Commission has gone through many changes. It has experienced high turnover of senior management including three different Presidents and two Chairs of the Board. In the past year, the Commission completed its first Enterprise Risk Management Assessment, changed its vision and mission statements, introduced a new performance measurement framework, and closed several foreign offices.

As outlined in our special examination opinion, we found that the Commission's key accountability documents, the corporate plan and annual report, did not demonstrate how the Commission is fulfilling its mandate by clearly linking

- corporate objectives,
- an analysis of the business environment,
- an assessment of the Commission's strengths and weaknesses,
- strategic priorities, and
- resource requirements.

Weaknesses in the performance measurement system, such as a lack of clearly defined measures for all key activities applied throughout the organization, seriously hinder the Commission's ability to demonstrate how well it is achieving its corporate objectives.

Strategic planning

Strategic planning process. The Commission's detailed planning process, led by a member of senior management, integrates input from within the organization and the Board of Directors, together with a detailed analysis of external factors that could affect its business activities. The recent internal audit of corporate governance and planning practices confirms that the Board of Directors and the Board's Executive Committee were involved in the planning process at key meetings throughout the year.

The Commission produces two strategic planning documents, a three-year strategic plan, generally produced every three years, and a five-year corporate plan, produced annually. It produced the 2006–2008 strategic plan and the 2006–2010 corporate plan in 2005. Although these two documents are prepared for different audiences, they have similar content, and they are prepared following similar but separate approval processes. Streamlining the production processes for these two plans could save time for senior management and the Board.

Strategies and resource needs. We found that the strategic and corporate plans provide extensive information on trends in the business environment. However, they do not clearly show how the Commission contributes to these trends or acknowledge other factors, including the impact of tourism activities by others in the industry. These documents also do not set out what the Commission believes it can achieve in terms of its mandate and statutory objectives. Further, the Commission does not report what it has achieved. We found that it does not clearly present its corporate strategies or link them to the four corporate objectives. Several sections in the corporate plan discuss the Commission's strategies and priorities for the planning period. The plan lists

- steps,
- directions for 2006–10,
- strategic thrusts for 2006–08,
- strategies through 2010, and
- priorities for the Commission.

It is unclear which strategies have the highest priority, because many but not all of the items on the various lists are the same. Because the strategies are not linked to the corporate objectives, the documents do not clearly demonstrate what the Commission is doing to achieve these objectives. Also, the plans do not specify the timing and resource requirements of the strategic priorities over each year of the planning period. Both plans provide a good analysis of business environment issues but do not clearly link the Commission's strategic priorities to these issues. The corporate plan includes a section that outlines the links between the Commission's activities and current government priorities.

Resource allocation. Resources are mainly allocated according to past levels. The Commission has not yet developed a fully robust annual process to reassess how much to allocate to each market and other activities. The research program—the Commission's second key activity after marketing—has operated within approximately five percent of the corporate budget for the past few years.

The Commission is developing resource allocation tools, based on objective data. Partly because of the Market Portfolio Analysis (MPA) tool, developed in-house, the Commission decided in 2004 to reallocate resources from certain lower-yield foreign markets to those with higher-yield potential. This decision resulted in the closing of four foreign offices, cost savings, and a marketing effort that focussed on the remaining markets. The Commission is currently developing a complementary Market Investment Model (MIM), to help distribute resources by market based on objective data.

Funding. We reviewed the Commission's business case for increased long-term funding. According to this business case, the Commission

requires significantly increased levels of funding if it is to be successful in protecting and promoting Canada's tourism industry in the face of increased competition for tourism market share. If the [Commission] continues to be funded at the current level of federal funding, Canada risks losing additional market share and destination awareness to both its traditional and emerging tourism competitors; losing opportunities in secondary markets where it lacks the funding to maintain an effective presence; and, foregoing potential economic and tax base benefits.

The key elements of the business case include comparisons to key competitors and the return on investment (ROI) estimates. We found

that the business case, prepared by an independent consultant, does not clearly demonstrate

- why the specific comparisons to other countries were reasonable;
- why it is appropriate to apply average ROI figures from specific marketing campaigns to all of the Commission's activities; or
- what the Commission would do with additional funding.

The Commission discussed its request for additional funding with the Minister and other key government officials. Recognizing the importance of its accountability to the government, the Commission has retained a small office in Ottawa for a government relations unit.

Risk management

The December 2004 Enterprise Risk Management Assessment process

- identified the Commission's business risks,
- prioritized the risks, and
- proposed a high-level risk management strategy.

The Commission developed high-level action plans to manage the risks. It then assigned each risk to the Chair of the Board, the President and CEO, or one of several senior managers. The annual planning process gives each business unit the opportunity to periodically assess the risks that their own organizations face.

The Board and senior management actively discussed the risks that the organization faces. Board members were also included in the Enterprise Risk Management Assessment process. The Commission plans to update the enterprise risk profile annually and continue its efforts to embed a focus on risk in the corporate culture. We expected the Commission to conduct ongoing formal risk assessment of all major initiatives and projects, and present them to senior management and the Board. The Commission has done extensive planning for other major issues, such as the move to Vancouver, major information technology projects (for example, the Web strategy), and the Brand Canada initiative. However, it has not documented detailed risk management strategies for these issues. In addition, the Commission has not fully integrated risk management into its strategic planning process.

Performance measurement

Performance measurement framework. The efforts of the over 150,000 businesses in the tourism industry have some impact on the tourism sector. Therefore, it is difficult to link the results of the tourism sector directly to the efforts of the Commission. Nevertheless, measuring and reporting performance against corporate objectives is important to meet public sector expectations for accountability and transparency.

The Commission is in the early stages of developing a framework and system to support performance measurement. Following the presentation to the Audit Committee in March 2005 of the corporate performance measures report, the Commission has developed a “performance dashboard.” This performance dashboard, which includes 10 performance measures and targets for various Commission activities, is included in the 2006–2010 corporate plan. We found that the Commission is developing a separate corporate scorecard that does not contain performance measures. The link between this scorecard and the dashboard is not clear; not everyone in the Commission understands the documents.

The 2005 corporate performance measures report presents performance measures for the organization as a whole, as well as for each business unit. However, this report does not completely establish a performance measurement system that is accepted, understood, and used throughout the organization. A performance measurement strategy typically includes

- an overall approach to performance measurement,
- a detailed profile for each performance measure, and
- a method for collecting and reporting information.

The rationales and the definitions for some of the performance measures were not clear. For example, the measure for the marketing program was “to increase consumer databases,” but it is not clearly linked to the Commission’s objectives.

The performance dashboard has some gaps and needs to be improved so management, and the Board, can assess current performance and, if necessary, change its strategies. In particular, the measures in the overall dashboard are not used consistently in all markets. For example, the measure of performance for Marketing is the increase in the number of consumer databases. Exhibit 2 illustrates the measures related to consumer databases for the various business units involved in marketing activities.

Exhibit 2 Measures related to consumer databases from the 2006–2008 strategic plan

Business Unit	Program Activity	Objective	Measure
Canadian Tourism Commission	Marketing	Grow qualified Commission consumer databases	To increase consumer databases (percentage increase)
Canada	Commission's Canadian database	Increase knowledge of our customers	Percentage increase in customer profiles Growth in the Commission's database (percentage increase)
US Leisure	Commission's US database	Increase knowledge of our customers	Number of unique customer profiles (percentage increase)
US Meetings, Conventions, and Incentive Travel	-	-	-
Europe and Latin America	-	-	-
Mexico	E-newsletter	Database	Increase on the database (number of names)
United Kingdom	Spirit of Canada Customer Relationship Management Program	Generate repeat visits	Magazine, e-mail newsletters, and Web site (percentage increase e-mail database)
Germany	Cross-promotion	Grow qualified consumer databases	Partnership value (number of cross-promotions and total dollar value)
France	-	-	-
Japan	-	-	-
South Korea	-	-	-
China	-	-	-
Australia	-	-	-

Source: The Canadian Tourism Commission Corporate Plan 2006–2010, October 2005

Although activities in all marketing business units could increase consumer databases, over half of the foreign offices did not have measures related to the consumer database. In addition, the corporate plan does not include performance measures for all key business units. Without consistent measures, it will be difficult for management to assess the relative performance of these units.

The four measures for partner support listed on the performance dashboard have elements of an effective scorecard. However, we also noted that specific measures for key activities, such as foreign offices, the consumer Web site, and implementing Brand Canada have not yet been developed. The Commission has identified that an appropriate measure for Brand Canada is required, and it plans to establish a benchmark in 2006. It is not clear how the Commission can assess its effectiveness without performance measures for key activities.

Performance reporting. We examined the performance information provided in the Commission's key accountability documents, the 2006–2010 corporate plan and the 2004 annual report. We found that, even though there is some information on the organization's achievement of its four corporate objectives, it does not provide a clear picture of the results. For example, the Commission's first objective is to "sustain a vibrant and profitable Canadian tourism industry." Many participants affect the tourism industry's profits, so it is not easy to attribute results specifically to the Commission's activities. These documents provide detailed information and analyses of tourism flows—the number of trips and revenues from those trips and gross domestic product of the tourism industry. However, they provide no specific information on the profitability of the flows, the industry's outlook, or the Commission's impact on tourism flows.

Although a number of evaluations have been conducted for specific initiatives, we noted that there has been no independent formal evaluation of the Commission's programs, services, and business units. Government entities frequently use program evaluation to provide senior management and the Board with information on the results and effectiveness of programs and services.

The annual report provides little information on the prior year's strategic priorities and the related accomplishments. For example, the 2004 annual report does provide information on the success of some marketing campaigns, but tends to focus on the activities or outputs instead of how these campaigns affect tourism.

Recommendation. The corporate plan should demonstrate how the Commission is fulfilling its mandate by clearly linking corporate objectives, the analysis of the business environment, the analysis of the Commission's strengths and weaknesses, the corporate strategic priorities, and related resource requirements.

The Commission should further develop its performance measurement system, including establishing clearly defined measures for all key activities, and apply this system throughout the organization to measure its achievements toward its mandate and corporate objectives.

Commission's response. *The Commission agrees with the finding that there could be clearer links among corporate objectives, an analysis of the business environment, an assessment of the Commission's strengths and weaknesses, strategic priorities, and resource requirements demonstrated in the Corporate*

Plan and Annual Report. In addition, the Commission will continue to evolve a comprehensive performance measurement system.

Marketing

According to the Commission's Web site, "Marketing . . . activities aim to increase tourism-sector revenues by attracting more and higher-yield tourists from international markets and by encouraging more Canadians to travel at home." The Commission divides its marketing activities between headquarters and the foreign offices, and for the past three years, directed its main marketing activities through an advertising agency.

We found that it was not clear whether the market research conducted fully met the Commission's strategic information needs. In many cases where market research has been done, the marketing plans and individual project files do not reflect how the results were used or were not used. The Commission does not have an accountability framework for individual marketing projects to ensure that they support its corporate objectives. Specifically, the Commission does not ensure that all projects have documented objectives, rationales, links to the strategic priorities and corporate objectives, or risk analyses. We also found that the Commission does not regularly evaluate completed projects against program goals.

The Commission stimulates tourism activity in many ways, including improving brand positioning, communication planning, and mass and direct marketing. It has an extensive program to reach the travel trade in all core countries with both information and partnership offers. The new Brand Canada has been developed with full industry consultation and research. The Commission's marketing activities aim to increase awareness of Canada as a desirable tourist destination and to encourage travel to Canada. Marketing activities include

- developing advertising campaigns;
- publishing brochures and electronic newsletters;
- attending travel trade shows and events;
- encouraging media coverage;
- running programs for travel agents who specialize in travel to Canada; and
- encouraging organizers of meetings, conventions, and incentive travel to select Canadian destinations.

To achieve its objectives, the Commission works with many partners, destination-marketing organizations, associations, large and small

private sector companies, and senior representatives of the provincial and territorial governments. Its goal is to match or exceed the Commission's contributions with partner contributions—of cash or in-kind goods or services.

Alignment of planning. Planning for marketing activities includes gathering information from the prior year's activities and reviewing the effectiveness of existing strategies. The marketing executive directors consult the Commission's foreign offices and the working committees and work with the Commission's advertising agency and foreign offices to prepare a plan for the coming year. These individual marketing plans are included in the 2006–2008 strategic plan.

Market plans. When we compared the individual market plans, we found that the strategies for different markets varied from high-level to tactical. We also found that there were large increases in performance objectives and it is not clear how the Commission expects to meet these objectives.

Understanding the tourism industry. The Commission receives feedback from the tourism industry, through the Board and the working committees. The Commission posts key documents on its Web site, and its staff attends trade shows and participates in provincial and territorial marketing forums. In 2005, the Commission conducted a formal survey, asking its industry partners to

- assess the Commission's overall performance,
- rate in detail the programs offered by the Commission, and
- provide new ideas for development.

The survey results were not available at the time of our examination.

Use of research. The Commission has access to best practices and competitive information because tourism marketing organizations across Canada and around the world post a variety of reports and planning documents on their Web sites. As noted later in this report, the Commission actively researches the tourism industry by

- collecting macro-economic data to forecast trends;
- conducting secondary research to develop market and competitive intelligence;
- carrying out detailed research to measure the effectiveness of specific marketing programs; and
- collecting local market information, quarterly, from the foreign offices.

While managers confirmed that the Commission gathered this information, the marketing plans do not demonstrate how it used this information. However, we noted that the strategic plan cited research as the foundation of Brand Canada.

Market research. From 2002 to 2004, we found that the Commission conducted 25 of 34 market research projects and studies in either the United States or Canada and that they were primarily ad hoc or campaign evaluation studies. There was little market-strategy research conducted in this period and it is not clear if the research met strategic information needs and provided sufficient geographic coverage. Many of the ad hoc studies were conducted in response to the external shocks experienced by the tourism industry during this period.

Market plans did not include detailed research findings from specific markets, and marketing files did not contain management summaries of

- what the research results were,
- how the design of the initiative reflected these results, or
- why some of the results were not used.

For example, even though research on the impact of specific campaigns in 2003 and 2004 concluded that secondary markets generated more incremental travel revenue than major urban markets, the marketing plan for 2005 focussed almost entirely on major urban markets. In some instances, the Commission does not use the results of its own research because its partners chose to disregard the results.

Recommendation. The Commission should ensure that its market research fully meets its strategic information needs. The marketing plans should reflect how the Commission uses research results to develop strategic priorities. Individual marketing initiative files should include management research summaries, which outline the results and how the results were used or were not used.

Commission's response. *Many of the ad-hoc studies were conducted in response to the external shocks experienced by the tourism industry from 2001 to 2005. The Commission will continue to allow for ad hoc initiatives addressing concerns as they emerge. The Commission acknowledges the need for marketing plans to specifically detail how research results were used to develop strategic priorities.*

Accountability framework for marketing initiatives. After the Board approves the strategic plan, the Commission starts a variety of marketing initiatives. We reviewed a sample of these marketing

initiatives, which included partnership agreements, but found that there was no documented recommendation to

- set objectives for the initiative,
- provide a rationale for the activity,
- link the initiative to the Commission's overall strategy, and
- analyze the risks of the proposed course of action before proceeding.

We also found little evidence that completed projects are evaluated against program goals. An accountability framework requiring this information for marketing initiatives would ensure that the Commission invests in initiatives that clearly support the Commission's objectives and that the risks have been considered and managed. The rationale and objectives could also be used for post-evaluation assessment.

One of the marketing initiatives we reviewed was the largest partnership entered into by the Commission. On 3 September 2004, the Board authorized the Chair and the President to negotiate the terms and conditions of a marketing agreement with a large corporate partner. While the Commission's board had just been informed of the agreement, the partner's Board of Directors had already approved it. In February 2005, the Commission retroactively signed a three-year \$18.7 million partnership agreement (began on 1 October 2004) with the corporate partner and its advertising agency. This agreement represents about 20 percent of the Commission's annual advertising budget.

We noted that the information provided to the Board did not include

- specific objectives for awareness or travel results;
- a strong rationale for the partnership;
- clear links between the partnership, the overall strategic plan, and the research results; or
- details of how the program's effectiveness would be assessed.

The Commission advised the Board that it expected to enter into partnership agreements totalling between \$4 and \$5 million with several major partners. However, in January 2005, the US Marketing Working Committee expressed concerns that the Commission's partners were not spending large amounts in two of the three cities targeted by the campaign. The Commission responded that the corporate partner would be investing with the Commission in those

markets so there “will be more than sufficient partner funding and support.”

The Commission also informed the Board that the advertising campaign is consistent with the development of Brand Canada and that it would have full control over creative direction and production of the advertising campaigns. However, according to the contract, the corporate partner “agrees to, directly or through its advertising agency . . . be responsible for creative direction, production, media planning and buying.” Management indicates that despite the wording of the contract, it had significant input into creative direction of the campaign.

Recommendation. The Commission should implement an accountability framework that documents objectives, a rationale, a link to the strategic priorities and corporate objectives, and a risk analysis for all individual marketing projects that ensures that they align with corporate strategies. The Commission should provide this information when it requests Board approval for key initiatives.

Commission’s response. *The Commission agrees with the recommendation and will implement an accountability framework to document objectives, rationale, and risk analysis, which clearly link strategic priorities and corporate objectives with corporate strategies.*

Management of the advertising agency. The Commission currently uses one advertising agency for many services in Canada and some services in other countries. In 2002, the Commission selected this advertising agency through a competitive selection process. Internal audit reviewed the process and concluded that it “complied with [the Commission’s] contracting policy and was characterized by a high degree of competition and transparency.” However, the internal auditors also identified weaknesses in the quality of the documentation that rated the proposals submitted by bidders for the contract.

The agency helps the Commission plan marketing activities. Agency fees and the programs that the agency implements for advertising and communications represent more than half the Commission’s marketing budget. Some of the Commission’s foreign offices use other agencies for public relations and consumer development. Headquarters also uses a different agency for the campaigns under its largest partnership. Because it uses different agencies for different markets, it may be more difficult for the Commission to send a common message, such as Brand Canada, to all its markets.

Agency guidance. Creative and media briefs are used to instruct the agency that provides the creative aspect of advertising and other initiatives. These briefs describe

- the target audience,
- advertising objectives,
- key consumer insights, and
- other guidelines for producing on-target advertising.

We noted that the Commission did not use briefs consistently. A consistent use of creative and media briefs would give the agency clear instructions for each initiative, document corporate memory, and accommodate changes to Commission or agency personnel.

Agency performance. The Commission conducts annual formal performance evaluations of the main agency, using the Institute of Communications and Advertising model. However, these evaluations have many shortcomings:

- Although the Commission rates each key agency service area and each major market using agency services, the 2004 report only provides summary results, not individual market scores that would provide better insight into regional strengths or concerns.
- The scoring sheet does not require respondents to score all questions, and as many as half the questions are unrated for some markets.
- The Commission's Head Office management does not provide a rating, even though some projects, such as the Brand Canada initiative, are managed almost entirely by the Head Office.
- The rating is not mutual and the agency does not rate its client. Mutual rating is a best practice in the industry and can expose process issues that may appear to be symptoms of Agency failings.
- The 2004 evaluation results were not finalized until six months after the end of the year. At the time of our examination, the results had not been shared throughout the Commission, and did not include agency responses and action plans.

Agency fee management. At the beginning of the year, the Commission establishes the scope of work, and the agency estimates and negotiates the required time with marketing management. Then, the fee budget is developed, and the monthly billing rate is set at one-twelfth of the total fee budget for the year. At the end of 2004, Finance reconciled the actual payments made to the agency with the

fees due. During 2005, agency billings were not completely reconciled with the fee budget. As a result, the monthly billings paid were higher than one-twelfth of the fee budget established at the start of the year. During the last six months of 2005, the fee estimates were adjusted for additional work to be done by the agency so that by the end of the year the revised estimate for annual fees matched the monthly billing rate.

We also noted that the arrangement with the agency in one country did not follow the standard fee based contract and the Commission had not amended the contract to reflect this arrangement.

Recommendation. The Commission should ensure the timely and complete evaluation of agency performance and timely management and monitoring of agency billings and payments.

Commission's response. *The Commission will enhance the formal agency management and evaluation process as recommended.*

Corporate governance

Corporate governance refers to the framework of systems, practices, and structures for overseeing the direction and management of an organization, so it can carry out its mandate and achieve its objectives. Since its inception as a Crown corporation in January 2001, the Commission has put significant effort into developing and enhancing its governance structure, systems, and practices. Overall, we found the core elements of a good governance framework in place. However, we noted that the Commission needs to

- improve the way it monitors conflicts of interest,
- consider the need for financially literate members when identifying candidates for Board positions, and
- ensure that the terms of reference for working committees fully reflects their advisory role.

The Board is made up of 26 directors, including the Chair and the President of the Commission. The *Canadian Tourism Commission Act* requires members from the private and public sector, and regional representatives from across Canada. In addition to the Chair and the President, Board membership includes

- sixteen private sector directors;
- seven public sector directors, designated by provincial or territorial ministers responsible for tourism to represent various regions of Canada; and

- the Deputy Minister of Industry Canada, who is “ex officio” a director.

The large Board allows for broad representation from the tourism industry, which is large and diverse and supports the industry-led aspect of the business model. The Board has six committees:

- Executive Committee,
- Corporate Governance Committee,
- Human Resources Committee,
- Nominating Committee,
- Audit Committee, and
- Ad hoc Small- and Medium-Sized Enterprises Committee.

The Board of Directors has also established seven working committees to advise the Board and the Commission on programs and service delivery. Working committees have between twelve and twenty members—two-thirds are from the private sector, one-third is from the public sector, and none of them is a member of the Board of Directors.

Reliance on internal audit. We relied on a recently completed internal audit that reviewed the Commission’s systems and practices for corporate governance. The audit report found no significant weaknesses but identified several areas needing improvement including

- the nominating committee for effective Board renewal,
- detailed minutes with identified action items from Board and Committee meetings, and
- monitoring of Board member attendance at training and orientation sessions.

In addition, the Internal Audit report recommended improvements in conflict of interest and code of conduct areas. Recent events in the private and public sectors indicate a need to establish and maintain a corporate culture of sound values and ethics. Except for the President and the Deputy Minister of Industry Canada, as required by the *Canadian Tourism Commission Act*, the Commission’s board members are owners or senior managers of private sector tourism businesses, the heads of provincial and territorial tourism agencies, or provincial and territorial deputy ministers responsible for tourism. As a result, many board members could have potential or perceived conflicts of interest. The Board has established processes that require directors to submit

declarations according to conflict of interest guidelines, as soon after their appointments as possible, and to provide annual updates. However, internal audit found that as of October 2005, five directors who were appointed in 2004 had not submitted their declarations. One director had not made the annual declaration in 2004 or 2005.

Internal audit also noted that directors withdrew from deliberations and voting on specific agenda items and identified conflicts of interest themselves. More rigorous monitoring of conflicts of interest would allow the Board and its committees to function more effectively and formal analyses of the reported declarations would allow the Board to actively manage all potential conflict of interest situations.

The Commission has established codes of ethics for Board members, working committee members, and staff. The orientation manual for Board members includes the “Code of Conduct for the Canadian Tourism Commission Board of Directors” and “Guidelines on Procedures for Ethical Behaviour”. Although directors are required to make conflict-of-interest declarations, accountability for oversight, monitoring, and administration of the code of ethics and code of conduct is not clear. Oversight and monitoring of conflict of interest is particularly important for the Commission because there are over 90 people on the Board and the working committees.

We also reviewed conflict-of-interest practices for Commission employees. New employees receive a document called “Working at the CTC, Your Guide to General Terms and Conditions” with their letter of offer, which includes the code of business conduct, the code of ethics, and the conflict-of-interest guidelines. Employees indicate in the letter of offer that they have read and understood the guide and declare that they will comply with the conflict of interest guidelines. The signed letter of offer is kept in the employee’s personnel file.

We encourage the Commission to assess its current practices for employees against the Values and Ethics Code for the Public Service issued in September 2003. We also noted that the Commission had not developed a policy for internal disclosure of information on wrongdoing in the workplace pending the finalization of the government’s legislation. We encourage the Commission to pursue its efforts to develop and implement this policy.

Management has agreed to implement the internal audit recommendations we considered most significant.

We also reviewed some key areas that were not included in the scope of the Internal Audit report, such as Board renewal, the overlap of roles

and responsibilities between working committees and management, and internal audit.

Board renewal. We noted that it has been difficult for the Commission to find candidates, with appropriate financial expertise, to sit on the Board and on the Audit Committee. While the Chair of the Audit Committee has extensive financial experience, the Board recognizes the need for additional financial expertise and is continuing its efforts to identify potential directors with this type of experience.

Roles and responsibilities. We found that the roles and responsibilities of the President, the Chair, and members of the Board were clearly defined and understood. In the Board's view, the terms of reference, established for the Board and its various committees are also well understood.

The role of the working committees, as documented in their terms of reference, is to provide advice to the Board on the delivery of programs and services. In practice, it has been difficult to establish a consistent understanding and agreement of the advisory role.

The Commission has recently updated the terms of reference for working committees. However, we noted that some overlap remains between the responsibilities of the working committees and Commission management and staff. The working committees are responsible for developing annual and multi-year strategic plans, providing operational direction to Commission staff, and monitoring program delivery.

Internal audit. Internal audit is a key element of corporate governance that assures senior management and the Board that key financial, administrative, and operational activities are efficient and effective. Internal audit can also suggest improvements.

In 2002, the Commission

- established the internal audit function,
- engaged an internal auditor on contract, and
- developed an audit plan for 2003–06 that is based on a risk assessment and has been updated annually.

After the Commission developed its top ten risks in its 2004 Enterprise Risk Management Assessment, internal audit reviewed its own plan and told the Audit Committee that the current long-term plan addressed these key risks. The plan identified two audits per year.

The Commission has developed terms of reference for internal audit. We found that the roles and responsibilities of management, the internal audit function, and the Audit Committee were clearly defined and understood. Internal audit reports to the Audit Committee on its audit findings. In March 2005, the Audit Committee requested that the internal auditor provide one or two page summaries of its key audit findings and recommendations. The Committee needs to ensure that it receives enough information about the audit recommendations to monitor management's progress in addressing any issues.

Research and information management

Research is a key element of the Commission's "industry-led, market-driven, research-based" business model. One of the Commission's corporate objectives is to "[p]rovide information about Canadian tourism to the private sector and to the governments of Canada, the provinces and the territories." Overall, we found that research and marketing activities provide information to meet the needs of the industry and support the Commission's strategic and operational objectives. We also found the Commission has systems and practices to manage its operational information needs. However, we noted that improvements could be made to

- the quality control process;
- periodic assessments for research activities; and
- the systems and practices to identify, retain, and safeguard critical records.

Research activities

The mission statement for the Commission's research program is "to create for the Canadian tourism industry the best data and research possible for informed decisions." We found good links between the 2003–2005 research strategic plan, the 2005–2009 corporate plan, and the 2005 corporate strategic plan for research strategies and goals. We reviewed a sample of research activities and found them to be consistent with the Commission's mission and plans. Research activities can be broadly classified as macro-economic research and market research.

The research working committee oversees macro-economic research activities—assisted by the core surveys, communications, and economics sub-committees—and various market-working committees oversee market research activities. We noted that the research working committee and its sub-committees provide oversight in reviewing research activities and elaborating communication strategies.

At the request of the Board, a program evaluation framework for research was

- developed in 1999,
- adopted by the Board's governance committee in 2000, and
- published in October 2003.

The framework was prepared to allow the Commission to evaluate how successful the research program was in achieving goals and objectives, and covers the rationale, effectiveness, and relevance of the research program.

In October 2000, an evaluation of the research program was conducted. Since 2001, two informal ad hoc reviews were done for the Board, for the corporate budget review; the most recent review was in 2004. However, the 2003 evaluation framework has not yet been implemented.

Users of research results. The results of the Commission's research activities are used by Commission business units and others outside of the organization. The Commission's research program has formally identified the potential users of its research work, and their needs, in two formal consultation studies performed in 1995 and 1997 and through occasional consultation with the industry. The Commission relies on industry representatives on the research working committee to provide ongoing feedback on how well research results meet the needs of the industry. Historically, the research program has received more partner contributions than the Commission's own expenditures for its macro-economic research activities. The Commission considers this a good indication that these research activities are relevant to the industry. The sample of research activities we reviewed were consistent with the user needs identified by the Commission.

Cost effectiveness. Research activities require specialized professional expertise and infrastructure. Due to limited in-house research capacity, most research activities are contracted to qualified third parties. Statistics Canada and the Conference Board supply the vast majority of macro-economic research and private firms conduct the market research. Suppliers are requested to bid for these contracts when appropriate. The Commission co-ordinates its research activities with the industry to minimize duplication of research activities through informal and formal channels.

Research activities are conducted in order of priority, as outlined in the research strategic plan and discussed at the research working

committee meetings. The Commission realigns its priorities when industry issues, such as the United States passport requirement, SARS, and changes in foreign currency exchange rates, emerge. There are also guidelines and procedures for reviewing and analyzing unsolicited research proposals.

Quality control for research. The research working committee oversees the quality of the Commission's research activities, overseeing the quality of core surveys and economic analysis through its sub-committees. The committee currently has three task forces analyzing complex research issues. As most macro projects are sub-contracted to Statistics Canada and the Conference Board, the Commission also relies on the control processes of these organizations.

We were advised of an informal process to ensure the quality of individual research activities. We selected a sample of research reports but found no evidence of this process for these reports. However, we were provided with evidence of some due diligence reviews of research studies that were not part of our sample.

We noted from our examination of marketing initiative files that the Commission used conversion research to determine a return on investment for some of its marketing activities. This conversion research assessed whether the Commission's marketing activities affected travel plans and spending. However, control groups are not always used to determine how many travel changes would have occurred without the Commission's marketing activity. Therefore, the conversion research may overstate the impact of the marketing initiative. In addition, the methodology used to estimate the return on investment only applies to some of the Commission's marketing activities.

Promotion and distribution of information

The Commission uses various means to promote and distribute information, including specialized Web sites, the TOURISM family of publications, corporate news releases, and occasionally industry events. The Commission has a publication and distribution unit to package and disseminate its publications. All macro-economic research reports are published online and archived with the National Library. We noted that Commission occasionally uses partnerships with various industry associations to disseminate its published research results and other information. No corporate guidelines exist for the publication of market research, which is left to the discretion of each marketing director.

Oversight. The corporate communication unit has a communications strategic plan that outlines the Commission's communications goals, strategies, and vehicles. The communications sub-committee of the research working committee oversees the Commission's dissemination of research information. Its goal is to provide necessary information and access to research, produced by the Commission and its partners, to the Canadian tourism sector. The sub-committee has terms of reference and meets semi-annually.

Web strategy. One of the Commission's current strategic initiatives is to globalize the Web strategy. The Commission will be upgrading its technology infrastructure and its main Web sites to improve information dissemination and market intelligence gathering, and to support the changes in marketing approach to place greater emphasis on electronic media and Web marketing. Fifteen percent of the Commission's marketing activities are currently web-based. Under the Web strategy

- about 50 percent of the marketing activities will be web-based;
- consumer Web sites will be run from the same platform, replacing the various foreign office Web sites with one Web site;
- about 70 percent of the Web site content will be global, and 30 percent will be customized for individual markets; and
- the Commission will reduce its current practice of using "micro-sites" for individual marketing campaigns.

The new Web strategy will be a significant financial undertaking for the Commission, with an estimated cost of \$7.6 million over the first five years.

The Commission advised us that analyses of this project show that the risks had been identified, assessed, and mitigated and that the protection of property rights, a standard clause in Commission contracts, was considered for the new Web strategy. The analyses only assessed the risk of cost overruns for this project. The Enterprise Risk Assessment process identified the risk of unintentional disclosure of confidential or sensitive information to third parties. The Commission is developing an action plan for this risk.

Information management

The Commission has several computer systems to store key data and information. All contracts (including partnership contracts) and invoices are stored in a central filing system and maintained by the

procurement and finance units respectively. All files and directories on all servers that store data are backed up regularly and backups safeguarded off-site. The Commission's publication and distribution unit processes, stores, and disseminates all reports approved for publication.

Critical records. We noted that the Commission has not identified the critical paper and electronic records needed to ensure business continuity and compliance with the *Library and Archives of Canada Act*. We also found that standards and procedures for organizing, classifying, and storing critical records have not been implemented. We noted that the lack of awareness of any record-keeping guidelines and a central filing system created inconsistencies and gaps in record keeping for some areas of the organization. During this period of high turnover, this could pose operational challenges in the transition to Vancouver. The staff, in business units that had lost many staff members in the move to Vancouver, could not locate some of the documents and files we requested during the course of our examination.

In 2004, the Commission hired a consultant to review its IT function. Some key recommendations from this review have not yet been addressed. We noted that IT has no formal strategic plan and that the Commission has no business resumption or disaster recovery plan.

Human resource management

Overall, we found that the Commission has the necessary systems and practices to manage its human resources and ensure that it has an adequate number of competent employees in the right places, doing the right things, at the right time. However, the headquarters move to Vancouver will require that the Commission hire a large number of employees in a short time.

To ensure that it has the core competencies and skills it needs, the Commission uses detailed organizational charts to outline its staff positions. Written job descriptions clearly document the roles and responsibilities for each position. The Commission has a well-established performance management system to ensure that performance objectives are linked to corporate strategy, and appraisals are completed regularly. The Board of Directors establishes the Commission's strategic goals, which the Commission communicates to the staff through a variety of channels including its INTRANet.

Classification and remuneration. From 1995 to 2001, the Commission was a special operating agency within Industry Canada. The Professional Institute of the Public Service of Canada still

represents the Commission's employees, and management reports that relations between the union and the Commission are good. The Commission also continues to use Treasury Board Secretariat classification groups for its unionized employees.

The move to Vancouver gives the Commission the opportunity to review its current classification and compensation structure, including the type of work that the staff does and the criteria for evaluating skills, responsibility, effort, and working conditions. The Commission could also review its current compensation approach to ensure that it will have a sustainable workforce. The Human Resources strategy includes a plan for classification conversion in the future. A review of the classification system could assure the Board that the Commission was managing human resources appropriately.

Managing the human resources implications of the move to Vancouver. The Commission lost most of its headquarters staff when it moved its headquarters from Ottawa to Vancouver. Only 19 employees chose to relocate to Vancouver. The President defined a new structure for her executive team, creating three new vice-president positions for Marketing, Sales, and Strategic Planning to replace the previous positions of Senior Vice President, Marketing and Sales, and Vice President, Planning and Product Innovation and Enhancement. After new executives were hired, they participated in filling positions in their area of responsibility. This allowed the members of the executive team to define the organization structure and select the individuals best suited to accomplish their objectives.

The Commission has been successful in filling the executive positions in Marketing and Sales, which has led to the staffing of other positions in this key part of the organization. The executives in Corporate Affairs, and Finance and Administration have stayed with the organization. Therefore, staffing in their areas was already underway before the move, and appointments had been announced for management positions. Human Resources started competitions for ongoing administrative positions to expedite the staffing process.

The Commission needs to ensure that it has the staff with the competencies necessary to address the coming challenges and successfully implement key marketing strategies, including Brand Canada and the Web strategy. As of November 2005, the Commission was still developing new positions and hiring new staff.

Procurement and partnerships

The Canadian Tourism Commission procures goods and services to support its marketing and operational requirements and partnership agreements through

- purchase orders,
- sole-source or single-source contracts,
- competitive contracts, and
- competitive standing offers.

The goods and services include

- advertising in various markets;
- producing brochures;
- computer maintenance;
- Web services;
- professional services, including legal and consulting services;
- booth-space rental at conventions and other travel events;
- job advertising; and
- personnel services.

Procurement policy. On 1 April 2005, the Commission introduced a new procurement policy that applies to all procurements at headquarters and the foreign offices, including certain contributions of goods and services related to partnership agreements. The Commission's partnering guidelines, also issued in 2005, cover all other aspects of partnership agreements.

Overall, we found that Commission designed the procurement policy and partnering guidelines to ensure the economic, efficient, and effective acquisition of goods and services, to meet defined requirements. We found some cases where the policy and guidelines were not followed, primarily contracts signed after the work had begun. If the policy and guidelines are used consistently, management will be assured of receiving best value from the procurement process.

The new policy outlines the situations where the use of sole-source and single-source contracts is acceptable. The procurement method and document type are based on the type of goods and services required, the estimated dollar value, and the degree of risk.

Single-source contracts occur when there is only one source of supply because proprietary or intellectual rights to products or contractual or legal requirements prohibit the use of other vendors.

Sole-source contracts occur where competitive bids are not used because

- the vendor's unique expertise makes them the only one capable of doing the work,
- the nature of the work means that it is not in the Commission's interest to solicit bids, or
- the contract is urgently required.

The Commission's by-laws state that contracting shall comply with the Commission's obligations under the

- North American Free Trade Agreement,
- Agreement on Government Procurement of the World Trade Organization, and
- Agreement on Internal Trade

We found that the new procurement policy does not provide guidance on what the obligations under these agreements are or how to address them.

We also noted that the procurement policy does not specify requirements to evaluate completed contracts to confirm that performance met specifications and an acceptable standard of quality. Evaluating larger contracts and contracts based on contractor performance would allow the Commission to determine whether the quality and quantities of goods and services met the contract specifications and use the lessons learned for future contracts.

Procurement practices. We reviewed a sample of 75 purchase orders, service contracts, and standing offer agreements issued in the first half of 2005. We found that the Commission followed the procurement policy for the majority of these purchases.

There were a few exceptions. The biggest problem was the eighteen contracts signed after the contracts had started. In seven of these cases, the vendor invoiced the Commission for work performed before the contract was signed. Of the eight single-source and five sole-source contracts included our sample, we noted that five were not properly authorized, and the justification for four was not documented. We also noted a few cases where clear criteria to evaluate bids were not

established or used and noted others where the competitive process—a policy requirement—was not used.

The Procurement group has developed a purchase contract checklist to help staff ensure that pertinent documents are received and signed. However, there are no established procedures for when this checklist is to be used and included in procurement files; it was not included in all purchase-contract files. Of the 75 purchases we reviewed, 30 files were missing one or more documents listed on the checklist.

Partnering is a growing and increasingly complex area. Substantial efforts are made to inform the industry of partnering opportunities. Marketing plans are shared at trade shows, with in-market committees, and on the Commission's Web site. The recently issued partnering guidelines outline the process for entering into partnership agreements. We reviewed a sample of 49 partnership agreements and found Commission officials signed 31 partnership agreements after the work was supposed to start.

Appendix Systems and practices examined and related criteria

Business risk	Key systems and practices	Examination criteria
Governance		
<p>The Commission's governance structure and practices may not ensure that</p> <ul style="list-style-type: none"> • the mission and mandate are fulfilled in an efficient and cost-effective manner, • the corporate objectives are consistent with shareholder direction, and • the activities are consistent with its long-term objectives and mandate. 	<ul style="list-style-type: none"> • Board governance and oversight • Board and committee terms of reference • Conflict of interest guidelines • Relationship with shareholder 	<p>The Commission has a well-performing corporate governance framework that meets the expectations for Crown corporations of best practices in Board stewardship and shareholder relations.</p>
Strategic Management		
<p>Strategic Planning. The plans and strategies resulting from the Commission's strategic planning process may not be achievable given current resources and market conditions and/or the resulting strategies may not be relevant or useful for the tourism industry.</p>	<ul style="list-style-type: none"> • Strategic, corporate, and operational planning • Risk management framework • Contingency plan • Accountability reporting • Corporate scorecard 	<p>The Commission has clearly defined strategic directions and specific and measurable goals and objectives to achieve its legislative and public policy mandate. Strategic direction and goals take into account government priorities, identified risks, and the need to control and protect assets and manage resources economically and efficiently.</p>
<p>Risk Management. The Commission's risk management process may not identify, evaluate, and mitigate key risks and opportunities- including awareness of the risk of unexpected global events outside the control of the Commission - and address them in the corporate strategy.</p>		<p>A focus on risk is embedded in the corporate culture at all levels of the Commission that supports the realization of the mandate, business goals, and objectives. Risks are identified, measured, mitigated, monitored, and reported in order to be kept within a level appropriate to the nature of the business.</p>
<p>Performance Measurement. The Commission may be unable to fully measure and attribute its performance and demonstrate its influence on tourism in Canada to the expectations of key stakeholders and the shareholder.</p>		<p>The Commission has identified performance indicators to measure the achievement of its mandate and statutory objectives. It also has reports that provide complete, accurate, timely, and balanced information for decision making and accountability reporting.</p>

Business risk	Key systems and practices	Examination criteria
Marketing		
<p>Delivery. The Commission's activities may not be relevant or useful for the tourism industry; the Commission markets products over which it does not have ownership; the Commission may be unable to implement process and product/service improvements quickly enough to keep pace with changes in the organization, the industry, or its competitors. The Commission's actions, behaviours, or practices, including external communications, may compromise its reputation and, as a result, lessen its ability to achieve its mandate, goals and objectives.</p>	<ul style="list-style-type: none"> • Regional office sales operations • Industry consultation • Marketing strategic plans • Partnership guidelines and agreements • Evaluation and review of marketing campaigns and projects • Marketing accountability reports 	<p>Marketing and sales activities are aligned with strategic and operational plans and are designed to achieve expected results based on a good understanding of the industry. The Commission exercises due diligence in approving individual projects and has a clearly communicated accountability framework in place, including performance management and reporting, and conducts periodic review and appropriate follow-up.</p>
<p>Partnership. The Commission may fail to mitigate the risk of non-payment of receivables or non-delivery of contracted services. Or, the Commission may be unable to sustain historic levels of partnership funding due to decreased partner interest or increased overhead.</p>		<p>The Commission enters into partnership agreements for activities that are aligned with corporate objectives, based on a good understanding of the industry and appropriately manages the risks inherent in third-party delivery, where applicable, including insuring the proper use of funds.</p>
Procurement		
<p>There may be inadequate standardization and rigour in the Commission's purchasing of goods and services and processes for entering into partnership agreements and other contracts, which may lead to unexpected financial costs and/or missed expectations of the service.</p>	<ul style="list-style-type: none"> • Procurement policies and practices • Partnership guidelines and agreements 	<p>The Commission has procurement policies and procedures that ensure the economic, efficient, and effective acquisition of goods and services to meet defined requirements. Contracts are managed and administered to ensure the successful completion of these contracts in accordance with the agreement. The post-contract evaluation process assesses the adequacy of the contracting process and its results.</p>

Business risk	Key systems and practices	Examination criteria
Human resources		
<p>The Commission</p> <ul style="list-style-type: none"> • may not have a strategy for identifying successors for key positions; • may not be able to attract and retain employees with the competencies necessary to support the mission and objectives of the Commission; • may not develop or implement an effective plan for staff transition for the head office move from Ottawa to Vancouver; • may use personal performance measures that are inconsistent with corporate goals and values; and • may have a corporate culture (staff attitudes or behaviour) that is inconsistent with the achievement of its mandate, goals, and objectives or is inconsistent with the code of conduct. 	<ul style="list-style-type: none"> • HR planning practices • Recruitment practices • HR policies and procedures • Transition management plan • Performance management plan • Corporate code of conduct 	<p>Human resources are managed in a manner that provides the Commission with the core competencies and skills it needs to achieve its goals and objectives economically and efficiently.</p>
Research and information management		
<p>The Commission's research practices and information management systems may not support the current and future information requirements of the Commission and the industry.</p>	<ul style="list-style-type: none"> • Micro- and macro-economic research practices • Management information systems • Web-site redevelopment 	<p>The planning, development, implementation, and management of research activities and information management systems support the Commission's strategic and operational objectives, ensure business continuity, and satisfy informational needs of the Commission and the industry at an acceptable cost and on a timely basis.</p>

Source: the Special Examination Plan, Appendix C