National Defence | Défense nationale

Chief Review Services | Chef - Service d'examen

CRS | CS Ex

AUDIT OF CONTRACTING FOR ADVERTISING AND RELATED SERVICES

March 2003

7055-52 (CRS)



Canada

TABLE OF CONTENTS

SYNOPSIS

Audit Background: *This report presents the results of an internal audit of advertising services, including sponsorships and polling. It was performed at the request of senior departmental management and was initiated by the Director General Public Affairs (DGPA), who had complete responsibility for recruitment advertising during the latter half of the three-year audit period (fiscal years 1999/00 through 2001/02). A particular focus of the audit was payments made against two major contracts: one for Media Placement (3-year expenditures totaling ~$22M)—an umbrella contract awarded by PWGSC that established a particular firm as the federal government's "agency of record" for media placement; and, the other for Advertising Production (3-year expenditures of ~$7M)—a single firm contracted to develop and implement DND's Communication Plan for recruitment advertising.*

Contracting Environment: *The audit noted certain characteristics of the larger business environment within which advertising services are contracted; while substantially outside of DND control, these have presented challenges to the Department's management of related contracts. The advertising industry appears to be quite concentrated and without well-designed contracting strategies, there is risk that alliances and relationships between various contractors/sub-contractors could undermine a genuinely competitive process. Combined with apparent "industry standards", involving large up-front payments, and commissions affected by volume of work and business relationships, this situation created a system of incentives that had the potential to affect the value for money for related DND expenditures. Particularly robust internal controls, especially with respect to financial responsibilities, would be required to mitigate these circumstances.*

Summary of Results: *A major Canadian Forces recruiting project was launched during fiscal year 2000/01. In the same timeframe, responsibility for recruiting advertising was transferred (September 2000) from the Human Resources Group to the Public Affairs Division. Despite the risks associated with the larger advertising-related contracting regime, the audit results indicate a pattern of improvement. There are indications that DG Public Affairs had progressively pursued a business focus and that, overall, suppliers were held to account in fiscal year 2001/02—the first full fiscal year DGPA had responsibility for recruitment advertising. Notwithstanding best efforts to locate documentation, the audit trail for prior years (i.e., 1999/00 and 2000/01) was not sufficiently complete for us to give assurance that goods and services were received, as contracted. In fact, there were files and documentation which we could not locate; a contributing factor may be the aforementioned transfer of responsibility.*

Financial Authorities and Control: *The majority of the approval documents for the initiation of individual projects were properly authorized, but about one-quarter were missing or not properly authorized. All but one advertising production project, however, could be tied into the scope of the DND Communication Plan. DND certifications that goods/services were received according to contract were almost all found to be correct in form; their substantive value was less apparent. In particular, for media placement, the umbrella contract placed specific reliance* *on the supplier to ensure placements occurred as contracted. In addition, DND's payment-requisitioning controls were not consistently in place for the period audited. For approximately six months, the responsible accounting office discontinued required verification to support the requisitioning of payments to suppliers; this process was re-instated toward the end of our audit.*

In lieu of formal training, DGPA personnel involved in contracting advertising services have normally learned on the job. Recent efforts have been made to improve contracting and financial expertise through internal training sessions and mentoring. As well, DGPA Advertising Group staff members are currently completing the Communications and Advertising Accredited Professional (CAAP) Program.

Additional Comments on Sponsorships and Polling Activities: *About two per cent of DND's advertising budget has been spent on sponsorships. DND differentiates these sponsorships from the federal government (GoC) Sponsorship Program and refers to them as "direct marketing initiatives". The purpose is not solely to enhance GoC Programs and image, but rather it is a marketing approach aimed at increasing CF recruitment. Again, the system in place for "sponsorships" was greatly improved in FY 2001/02, with respect to visibility, documentation, and post-event reporting. We also understand that the more recent "sponsorships" have been contracted through PWGSC. Ultimately, however, we have questioned the value of "sponsorship" initiatives relative to the costs of necessary management controls.*

Public Opinion Research (polling) is not contracted through either the Advertising Production or Media Placement Agencies, but through call-ups against PWGSC-administered standing offers. With few exceptions, polling activities were found to be consistent with TBS Policy.

Centralization of Advertising Expenditures: *According to TBS policy, Heads of Communications are required to manage all advertising-related services and polling expenditures. For FY 2001/02 alone, we noted, and performed a cursory review (not an audit) of approximately $1.7M of advertising expenditures and approximately $250K of polling expenditures initiated by other DND organizations.*

Recommendations: *We have made recommendations intended to strengthen specific controls, to demonstrate substantive compliance with delegated authorities, and to better compensate for risk factors associated with the advertising contracting environment. Given the management effort relative to sponsorships, we have further suggested re-evaluation of the cost-effectiveness of this approach. Finally we recommend the reinforcement of functional responsibility for all departmental advertising and related services.*

Management Response/Action: *DG Public Affairs has accepted all of the broader recommendations, with the exception of the re-evaluation of sponsorship activities. The responsible directorate within the Finance and Corporate Services Group agrees with the finance-related observations and has re-instituted key controls and is also proposing potential policy/procedural changes respecting the payment verification process. Other management actions that have or will be taken include the following:*

- *DGPA is an active member of the Inter-Departmental Committee on Advertising Reform;*

- *the departmental Public Affairs Ad Group has initiated improvements to the internal control framework, including a more detailed supervisory review and authorization process;*

- *the Ad Group intends to issue (in 2002/03) standard operating procedures to further strengthen the maintenance of contracting files (and audit trails);*

- *DND's Annual Communication Plans will be signed by DGPA and posted on the Intranet; and*

- *financial analyses are being performed, and standard operating procedures are being developed, with respect to the governance of all DND/CF advertising activities.*

The more detailed management response and action plan appears at report Annex A.

OVERVIEW

BACKGROUND

1. Initiation of the Internal Audit. This audit was performed at the specific request of senior departmental management. Its initiation was sought out by the Director General Public Affairs (DGPA), and it has addressed sponsorships as well as DND contracting for advertising and polling. In the past six months, sparked by an unfavourable report by the Office of the Auditor General (OAG), there has been a great deal of negative attention directed at related expenditures by departments for communications/advertising services.

2. Treasury Board Secretariat (TBS) Concern. Subsequent to the initiation of this audit, the Department received a letter from the TBS, requesting the following with respect to sponsorship, advertising and polling (public opinion research):

a. assess adequacy of the contracting management system;

b. review current files for compliance with Sections 32, 33 and 34 of the Financial Administration Act (FAA), as well as other pertinent legislation/regulations; and

c. provide assurance that those having applicable delegated authorities are properly trained and informed.

3. Scope. This internal audit has addressed advertising, polling and sponsorship activities handled by the DND Public Affairs Division over the last three fiscal years (i.e., 1999/00 through 2001/02), especially concentrating on payments against two contracts—one for Media Placement and one for the Advertising Production. These are included in the explanatory notes below:

- Media Placement: an umbrella contract, awarded by PWGSC, establishes a particular firm as the federal government's "agency of record" for media placement (e.g., television advertisements). Departments requisition their annual requirements against this umbrella contract.

- Advertising Production: a single firm contracted to develop an annual Communication Plan for DND's recruitment advertising, including media plans and creative development, as well as production. This three-year contract was awarded via a competitive process through PWGSC, with DND representation in the selection.

- Sponsorships: arrangements in which one party provides another with financial resources or in-kind assistance to support a project of mutual interest and benefit—per TBS Communications Policy. From the perspective of the DND/CF, sponsorships are principally arrangements whereby resources/compensation are provided to a third party, usually in the context of an event (e.g., hockey game), to promote the CF and recruiting.

- Polling: "Public Opinion Research to assess the public's response to proposals or to possible changes or initiatives; to assess the effectiveness of policies, programs and services; to measure progress in service improvement; and, to evaluate the effectiveness of communication activities; and for marketing purposes, among other applications."—Per TBS Communications Policy.

4. Expenditure Population. Approximately $22M has been expended by DND over three years for media placement, and about $7M was charged against the advertising production contract over the same period. This does not include approximately $1.6M for polling. (There are also lesser amounts for advertising-related work arranged outside of the Public Affairs Division and not placed through the main contracts noted above.) The DG Public Affairs (DGPA) has been responsible for almost 80 per cent of the total purchases for the three fiscal years, against the contracts noted above (including FY 2001/02 Payables at Year End (PAYEs)). Responsibility for recruiting advertising was moved to DGPA, from the CF Recruiting Group (CFRG), in September 2000.

5. Sampling Approach. A key audit objective was to assess the sufficiency and effective functioning of the system of internal control, including delegated certifications pursuant to the Financial Administration Act (FAA). In this respect, we calculated all payments made against the media placement and advertising production agency by DGPA or CFRG, and sampled all expenditures with values greater than $25K. This allowed us to examine approximately 70 per cent of total payments to the advertising production agency and almost 90 per cent of payments for media placement, over the three fiscal years. For polling and sponsorship expenditures, which were significantly smaller, we sampled an even greater percentage of the population.

THE CONTRACTING ENVIRONMENT

6. Certain characteristics of the larger business environment within which communications/ advertising services are obtained, while substantially outside of the control of DND, have presented challenges to the Department's management of contracting for these services. One key aspect is that the advertising industry appears to be quite concentrated. Industry structure is such that, without well-designed contracting strategies, there is potential for alliances and relationships between various contractors/sub-contractors, to undermine a genuinely competitive process. It would fall outside of the purview of DND management to review or investigate the ownership structures of alliances and sub-contracted companies. However, this situation, combined with apparent "industry standards", involving large up-front payments, and commissions affected by volume of work and business relationships, created a system of incentives leaving much latitude for value for money to be at risk for related DND expenditures.

AUDIT RESULTS

7. Overall Assessment. We noted weakness in the larger advertising-related contracting regime having clear potential to affect the achievement of value for money by the Department. Despite this, and based an observed pattern of improvement since recruitment advertising was transferred to DG Public Affairs in September 2000, we found that, overall, suppliers were being held to account in fiscal year 2001/02. There are indications that the Public Affairs Division has pursued a concentrated business focus; this has been complemented by improvements in file administration within that Division.

8. Shortcomings in administration and documentation for fiscal years 1999/00 and 2000/01 prevent us from giving assurance that all products were received as contracted—these were not insignificant. However, this does not necessarily mean that the products were not received; nor did we see indication of intentional wrongdoing. It does mean that the audit trail was not sufficiently complete for a number of large payments. The availability of documentation may well have been affected by the September 2000 transition of responsibility for recruiting advertising, from the CF Recruiting Group to DGPA. While a marked improvement occurred for 2001/02, there remains an evident requirement to strengthen specific internal controls, to demonstrate substantive compliance with delegated authorities, and, to better compensate for risk factors inherent in the advertising contracting environment. At a minimum, key improvements are necessary in the following areas: segregation of duties; documented supervisory review of transactions based on defined risk criteria; targeting reasonability checks on the supporting documentation provided with invoices; and, strengthening of the definition of tasks for individual call-ups on contracts. As well, an improved understanding of annual requirements is necessary to better anticipate the need for services and to avoid large contract amendments. We acknowledge that evolving (increasing) recruiting targets complicated the forecasting of advertising requirements.

9. DGPA and the Finance Group have provided management responses (See Annex A) to the report recommendations. For the most part, there is agreement with the recommendations, and steps are planned, or have already been taken, to address the issues raised.

10. Financial Delegations. With respect to FAA **Section 32** (i.e., initiation and authorization of work), the Head of the DGPA Advertising (Ad) Group approved the majority of advertising production estimates and media placement project authorizations, call-ups etc., but for about 25 per cent of the transactions sampled, the authorizing documents were missing or unsigned, or had not been signed by the Head of the DGPA Ad Group—the one individual with Section 32 authority—but rather by another advertising officer. This latter situation was the norm for the authorization of sponsorship activities in FY 2001/02. Further, other than the involvement of the Head of the DGPA Ad Group, no additional supervisory review was evident for the initiation of the more significant projects.

11. It is also important that payments be supported by the inclusion of a project within the DND Communication Plan—this Plan should also be formally endorsed and distributed within DGPA. We did note one large (~$800K) project, initiated before FY 2001/02, for web-site development, which, while advertising–related, was not within the scope of the Communication Plan, or the advertising production contract through which payment was made. This effectively allowed for the circumvention of the competitive process and, consequently, introduces concern regarding value for money.

12. Certificates given pursuant to FAA **Section 34** (i.e., goods/services received and price as per contract), were given correctly in form (with the exception of five smaller transactions for FY 2001/02, totaling $16K), but the safeguards associated with these certifications were inherently weakened by limitations affecting the contracting structure (e.g., onus is on the media placement agency to confirm that print and video ad placements have actually taken place). In view of this risk, our audit sought proof of receipt from the media placement agency for a large part of the audit sample for each fiscal year—no obvious problems were discovered. For advertising production, we were provided with some form of physical proof of receipt of goods/services for all sampled items for FY 2001/02, but the DGPA Ad Group was unable to provide us with the same degree of proof of receipt for the years that DGPA did not have complete responsibility for recruitment advertising.

13. We found there are opportunities for greater segregation of financial duties that should be explored. Currently one individual approves the majority of the projects/requisitions (Section 32) and signs for receipt of the goods/services (Section 34) on all associated invoices. Because advertising officers have more direct knowledge of their project activities and status, having them trained to certify Section 34 would offer advantages in terms of accountability and operational efficiency.

14. During the conduct of our audit, we also noted that the Accounting Office (CDAO) responsible for requisitioning payments (i.e., certifying FAA **Section 33)** for the DGPA expenditures, had ceased performing the post-payment statistical sampling and verification required by DND and TBS policy. This persisted for a large part of FY 2001/02 and was apparently a result of workload; post-verification was subsequently re-instated. We also learned that high-risk transactions were not consistently reviewed by the Accounting Office in advance of payment, and, from a review of the Financial and Managerial Accounting System (FMAS), we noted a number of instances in FY 2001/02 whereby one individual, who arguably possesses the requisite experience, had exceeded the documented delegated authority level when authorizing payments.

15. Additionally, we observed that direction relative to applicable delegated signing authorities for high-value transactions could be viewed as conflicting relative to defined limits. The departmental delegation instrument restricts to $100K the payment requisitioning authority of a Warrant Officer (WO) and civilian equivalent. However, related departmental guidance, in the Financial Administration Manual (FAM), implies that more senior approvals are required for high-risk transactions—one definition of which is transactions greater than $250K. Clarification is required as differing interpretations can be made about whether a WO, as an example, can approve transactions up to $250K.

16. Financial Administration. Overall, the visibility, financial records (including budget tracking) and documentation of advertising expenditures for FY 2001/02 represented a noteworthy improvement over previous years. The DGPA Ad Group tracks budgets and expenditures for advertising, polling and sponsorship projects. At the same time, we found the quality of supporting documentation for the transactions in our sample to be variable. This required much search time and follow-up to satisfy our audit tests. Our follow-up to locate documentation was, for the most part, successful for payments made in FY 2001/02. It was relatively less successful for prior years; in part, this will be attributable to the transfer of responsibility for recruiting advertising, as occurred in 1999/00. For example, for 10 of the 14 advertising production payments sampled for FY 1999/00, the approved production estimate that initiates the expenditure, could not be located.

17. An area of weakness pertains to PAYEs; these accounting transactions are intended to ensure that for goods and services received in a given fiscal year, payments will be properly charged to that year's appropriations, although the actual invoice may not be received until the following fiscal year. We found that amounts set up at year-end were not consistently well substantiated and the accounting trail was difficult to follow. While our review of subsequent payments against PAYEs indicated that almost 80 per cent of the balances are subsequently cleared, the amounts established at the outset tended to be higher than necessary. We did note that "old-year" supplier invoices were received well into the new fiscal year (i.e., at least as late as July), and additional "old year" invoices may have arrived after audit conduct was completed.

18. Training. In lieu of formal training, DGPA personnel involved in contracting for advertising services have normally learned on-the-job. This learning was supplemented through their personal review of applicable TBS and departmental guidance with respect to finance, communications and contracting. We are advised that DGPA Advertising Group staff members are currently completing the Communications and Advertising Accredited Professional (CAAP) Program and recent efforts have been made to improve contracting and financial expertise through internal training sessions and mentoring. We recommend further contracting-related training to provide complementary knowledge to the contracting advice already provided by PWGSC. We also note that an ongoing internal audit of the management of devolved funds, will address any issues respecting the training of financial staffs.

19. Sponsorships. About two per cent of DND's advertising budget is spent on sponsorships (including media placement and advertising production costs as well as the actual event sponsorship). While we attempted to classify all audited transactions as either sponsorship, polling or advertising expenditures, there were gray areas where we had difficulty distinguishing between transaction types. Nonetheless, for the three years examined, we identified DGPA sponsorship expenditures totaling approximately $750K, the majority of which we reviewed. The Department differentiates these sponsorships from the federal government (GoC) Sponsorship Program, referring to them as " direct marketing initiatives"—the purpose is not solely to enhance GoC Programs and image, but is rather a marketing approach aimed at increasing CF recruitment.

20. The system in place for Sponsorships was greatly improved in FY 2001/02, with respect to visibility, documentation, and "after-action reports". In addition, in November 2000, DGPA promulgated a Sponsorship Directive, including a matrix of common criteria to support the evaluation of unsolicited proposals. We accepted proof that events took place from After-Action Reports (AAR) for FY 2001/02—which were available for all of the events that the DGPA Ad Group had defined as sponsorships, but were missing for some of the additional events that we identified. Instances of weak/missing documentation and lack of proof of services/products received were also noted with respect to sponsorships in the two prior fiscal years audited.

21. Notwithstanding the aforementioned problems with the definition of "sponsorship" activities, we noted a number of sponsorship-like expenditures (~$100K) initiated outside of DGPA, and which had not been subjected to the sponsorship matrix evaluation. Despite the relatively smaller dollar amounts involved, DND sponsorships can be problematic. On the advice of the contracting authority, until 1 April 2002, DND entered into sponsorship arrangements by means of the contracts with the Advertising Production Agency or the Media Placement Agency. In substance, this approach has not subjected these transactions to competition. We also question the value of sponsorships being handled this way and being subject to payment of commission, particularly in view of DND's acquired expertise in this area. Typically, sponsorships were paid in advance of the event; this is contrary to Communication Canada (CC) guidance, which indicates that only 50 per cent should be paid on signing. (We understand that, since 1 April 2002, contracts for sponsorship arrangements are handled through PWGSC.)

22. Polling. The system in place for Polling (public opinion research) was found, with a few exceptions noted below, to be consistent with the TBS Communications Policy. We identified $1.4M in DGPA-initiated polling expenditures over the three fiscal years 1999/00 through 2001/02; approximately 90 per cent of these were sampled.

23. DND liaises with PWGSC/CC regarding research plans and strategies and utilizes PWGSC-administered standing offers for research undertaken. TB Communications Policy requires a CC registration/approval number for the conduct of polling. Specific evidence of a CC registration/approval number was not found for 7/36 polling payments sampled. However, for four of these exceptions, final products have, or we understand will be, provided to CC. The other three payments in question related to two contracts let directly by DGPA. These contracts were for further analysis of previously gathered polling data, and therefore apparently do not require CC involvement.

24. Advertising-Related Expenditures Outside of DGPA. A requirement of TBS policy is that Heads of Communication (i.e., DGPA) "manage corporate identity, advertising, publishing, marketing, environment analysis, public opinion research, media relations, event participation, and other communication activities." Internal DND direction also requires advertising or polling plans to be submitted to DGPA prior to implementation. For FY 2001/02, we noted approximately $1.7M of expenditures charged to the advertising general ledger account alone, by other organizations. This included some sponsorship-type expenditures (discussed briefly in paragraph 21 above). These expenditures were mainly for newspaper ads (recruiting related),

brochures, signs, advertising decals and promotional souvenirs. Another approximately $242K of polling expenditures initiated outside DGPA were also identified.

25. We did not audit these expenditures. A cursory review of a limited sample did not identify any major issues. The concern is that these expenditures are occurring outside of the purview of DGPA.

RECOMMENDATIONS

26. Contracting Arrangements. DND can, and should, provide valuable input to an inter-departmental strategy to resolve recently recognized issues regarding advertising and media placement contracts. These issues include: markups paid on sub-contracted work without a clear view of the implications of supplier ownership structures; use of a flat commission rate which does not discriminate relative to volume of business; and, relatively broad statements of work for the main advertising production contract.

27. Call-ups/Requisitions. For future contracts, we recommend that DGPA strengthen the process for individual work requisitions, such that DND-prepared documents (e.g., briefing packages) are on file to clearly identify requirements along with the pricing and costing methodology (fixed price, time and materials etc.) for each project.

28. Sponsorships. Given the risks and controversy associated with sponsorships, and the workload involved in achieving a demonstrably competitive process, we recommend that DGPA re-evaluate the use of this means of advertising altogether. Should it be judged necessary to incur the management costs to continue this activity, clear direction will be required to ensure that the DGPA Ad Group is the recognized OPI for all sponsorship activities for the DND/CF. It may also be worthwhile to examine the use of individual contracts as a means of obtaining sponsorship work. Finally, to ensure consistency, the current DGPA evaluation matrix and other processes should be assessed relative to revised PWGSC direction on sponsorships.

29. Communication Plan. To improve the transparency of advertising activities, it is recommended that DGPA ensure that the Communication Plan, prepared by the Advertising Production Agency, is formally endorsed/signed-off and is distributed within the Division. Amendments to the plan should be similarly documented and distributed. Further, based on the Communication Plan, an analysis and forecast of annual requirements should be undertaken to minimize the need for large contract amendments.

30. Internal Controls. With assistance from the Finance Group (DG Fin) staff, DGPA should investigate opportunities to improve internal controls over advertising expenditures. We recommend consideration be given to delegating FAA Section 34 to advertising officers responsible for individual campaigns and to centralizing Section 32 approvals, while implementing supervisory review for higher risk transactions. In addition, PWGSC polling registration/approval numbers should be obtained and recorded on the project file.

31. Training. As changes are made in the structure of new advertising contracts, the DGPA Ad Group staff and immediate supervisors should arrange a joint DND/PWGSC session to review good contracting management practices under the new regime. One objective should be for the Ad Group to gain additional contracting knowledge to supplement PWGSC contracting advice. Advice from DG Fin staff should continue to be sought for the administration of PAYEs to ensure that these are correctly set up/substantiated and subsequently cleared.

32. FAA Section 33 (Payment Authority). Director Accounts Processing, Pay and Pensions (DAPPP) should consult with Director Financial Policy and Procedures (DFPP) to clarify the policy requirements of delegated authorities relative to Section 33 and to ensure that the requirements of the FAA are being met with respect to statistical sampling and verification/review of transactions.

33. Functional Direction. DGPA direction needs to be reinforced and monitored regarding centralized authority for advertising and polling expenditures. This direction should be extended to include sponsorship activities (clear definition required). The FMAS can be used to monitor expenditures, which may be initiated outside of the Division.

ANNEX A – MANAGEMENT RESPONSE

DGPA Response:

Recommendation 1 (paragraph 26), "Contracting Arrangements"

DGPA agrees with this recommendation and currently meets the requirement. In fact, DGPA:

- is a member of the Inter-Departmental Committee on Advertising Reform, which provides key advice to Communication Canada and PWGSC with respect to all issues on advertising, sponsorship, and polling goods and services procured on behalf of the Government and their associated contractual issues, and applicable contractual mechanisms; and

- has a permanent seat on the Government Advertising Committee (GAC), which in part oversees the value-for-money of all advertising campaigns proposed by Government of Canada departments, and ensures that all advertising meets Federal Identity Program (FIP) guidelines. GAC also gives final approval of all advertising performed by Government of Canada departments.

Recommendation 2 (paragraph 27), "Call-ups/Requisitions"

DGPA has noted and agrees with this recommendation. In fact, since taking over responsibility for recruit advertising over the last two years, the DGPA Ad Group has instituted very rigorous procedures to ensure that the required documents are on file that clearly identify the project requirements, along with the pricing and costing methodology.

In addition, the Ad Group will issue standard operating procedures that will complement and strengthen existing filing procedures and ensure that all Statements of Work submitted to contractors—whether Agency briefing notes, specific order forms, or e-mail and teleconference notes—are kept on file.

Recommendation 3 (paragraph 28), "Sponsorships"

The DGPA event-marketing initiatives in which we engage do not meet the narrow Treasury Board definition of "sponsorship activities." Our activities combine the purchasing of media opportunities (e.g., event space, booth space) versus the provision of funds to a third-party organizer. Therefore, DGPA disagrees with the recommendation that we re-evaluate the use of sponsorships as a "means of advertising altogether." In our opinion, the relatively small amount of money (two percent of the overall budget) used to fund "sponsorship" activities provides a good return on investment, because we can more narrowly target our market through means complimentary to advertising, e.g., earned media. While we note that there are risks, these risks can be mitigated and managed effectively.

ANNEX A

In addition, contrary to the audit report's assertion that after-action reports of event-marketing activities were not consistently prepared, DGPA has determined that all event-marketing activities since August 2000 (the date when DGPA became responsible for event-marketing activities) had either a post-action report, or a memorandum explaining why no report was available. DGPA also issued a directive during fiscal year 2002/03 that all sponsorship files must be closed with after-action reports that include an analysis of the event and recommendations for any subsequent similar venue or opportunity. DGPA has worked with PWGSC and Communication Canada, as well as other government departments, to establish an event-marketing evaluation matrix, and will continue to re-evaluate it in light of new Government of Canada guidelines and directives.

Auditors' Note: Our observation with respect to after-action reports pertains to those events which were either not recognized by DGPA staff as constituting sponsorships, or were initiated outside of the DGPA Advertising Group.

Recommendation 4 (paragraph 29), "Communication Plan"

DGPA has noted and agrees with this recommendation. DGPA will ensure that the annual communication plan is endorsed/signed off by the Director General Public Affairs, and that specific communication projects within the communication plan are endorsed/signed off by the appropriate project manager before the contractor implements them. In addition, DGPA will ensure that various elements of the communication plan are posted on the DGPA Intranet site.

In terms of forecasting annual requirements, DGPA will endeavour to forecast as accurately as possible. However, since the communication plan is developed in the third quarter of the previous fiscal year, while the final recruiting requirements and Strategic Intake Plan are not finalized until the first quarter of the New Year, some revisions to the forecasted requirements will be unavoidable. Furthermore, it is important to note that a communication plan is a living document and must be continually adjusted to meet ongoing and revised DND/CF communication commitments and requirements.

Recommendation 5 (paragraph 30), "Internal Controls"

In general, DGPA agrees that it will investigate opportunities to improve internal controls over advertising expenditures. However, we remain unclear as to what risks are associated with having the Head of Operations approve the majority of projects/requisitions (Section 32) and sign for the receipt of the goods/services (Section 34) on all associated invoices, since the Head of Operations remains responsible and accountable for the approvals. Delegation of signing authority would be an administrative issue, not one of risk mitigation.

Auditors' Note: Further delegating authority for Section 34 certification would add benefit in terms of accountability and operational efficiency. However, ADM(Fin CS) supports the DGPA response above, but with the comment that if there are operational benefits to be gained, individuals other that the RC manager may be tasked with responsibilities related to the account verification process.

ANNEX A

We agree with the recommendation of supervisory review, and DGPA has already initiated a supervisory review and authorization process for task authorizations, estimates, and invoices, as follows:

- the Head of Operations for the Advertising Group will approve all task authorizations, estimates, and invoices valued at less than $500,000;
- DICRSS 2-2 will approve all task authorizations, estimates, and invoices valued between $500,000 and $1 million; and
- DICRSS will approve task authorizations, estimates, and invoices valued at $1M or more.

In addition, DGPA will ensure that the polling registration/approval numbers are obtained from Communication Canada and recorded on the project file.

Recommendation 6 (paragraph 31), "Training"

DGPA has noted and agrees with this recommendation. In fact, DGPA comptroller staff members have already initiated administrative and financial training sessions for all DGPA managers, including those in the Ad Group.

In terms of the administration of PAYEs, however, DGPA must assert that PAYEs for media placements are currently being correctly set up and substantiated based on current PWGSC/media placement contract requirements. The contract stipulates that the contractor can "pre-bill" DND for an amount of 80 per cent of the estimated media-placement cost and agency fees. The subsequent 20 per cent is adjusted for such costs as early discount payments, discounted agency fees as a result of the volume of the Government of Canada media purchases, media cost reduction, and cancelled media placements. While PAYEs are estimated from the initial media-planning costs, these costs may change by one per cent, for example, based on the volume of the Government of Canada media purchases alone. On large TV media purchases of $2 to $3 million, relatively minor variations in PAYEs may occur.

Auditors' Note: The 80 per cent referred to in the observation pertains to the percentage of PAYEs cleared overall, including all advertising-related purchases (not just media placement).

Recommendation 8 (paragraph 33), "Functional Direction"

DGPA has noted and agrees with this recommendation. In fact, since the transfer of responsibility for recruit advertising to DGPA in September 2000, financial-management improvements have continually been implemented. In fact, DGPA hired a comptroller 18 months ago to help us with these improvements. Furthermore, in co-operation with the DGPA Finance and Administration Directorate, the FMAS will be used to monitor not only DGPA Ad Group expenditures, including those used to fund event-marketing activities, but also advertising activities outside of DGPA. In addition, DGPA Ad Group staff members are performing regular analyses of financial reports on a monthly and quarterly basis.

ANNEX A

In addition, the DGPA Ad Group is also in the process of developing standard operating procedures that will govern all DND/CF advertising activities. These procedures, which will be brought forward to DMC in the near future, will govern all departmental event-marketing initiatives, partnerships, and general advertising in accordance with the new Government of Canada Communications Policy, which was introduced in April 2002. For your information, DGPA currently has an agreement with HR(Mil) regarding responsibility for polling, i.e., DGPA is responsible for external polling, and HR(Mil) is responsible for internal polling.

ANNEX A

ADM(Fin CS)/DAPPP Response:

Recommendation 7 (paragraph 32), "FAA Section 33 (Payment Authority)"

DAPPP 3-6 (CDAO) had indeed ceased performing the post payment statistical sampling and verification from November 2001 through to August 2002. The DAPPP 3-6 Policy Compliance staff members were temporarily reassigned to a high priority task—a decision made after due consideration, and supported by both DAPPP and the Director General Finance (DG Fin).

During the above-noted period, a Warrant Officer within DAPPP performed FAA Section 33 approvals on payment documents in FMAS. At times, due to staff limitations, the WO performed these approvals for all payments requisitioned by the CDAO, including those over $100K with management concurrence. This decision was based upon the fact that the WO, the best-qualified person available for the task, had the requisite experience and time to devote to the payment approvals. The next update of the Departmental Delegation of Financial Authorities Document will recommend the increase of the authority to Warrant Officers and Master Warrant Officers to $250K.

The FAM (1016-4 Payment – FAA Section 33) states that there is a requirement for the payment officer to review all high-risk transactions prior to payment under the Section 33 approval process. This review requires access to original contracts, invoices, and other requirements as outlined in a review checklist at Annex A. There are many dozens of such payments made daily by the CD Accounting Office. The physical dispersion of supported directorates, units, and offices makes fulfillment of this requirement extremely difficult and not logistically feasible. The existing regulation is under active review within DG Fin by DFPP. The current compliance verification process undertaken by DAPPP that is based on scheduled, on-site reviews of processes and procedures used by RC Managers meets the requirements of the FAA. Appropriate policies will be amended in due course.

Note: (added October 2003) ADM(Fin CS) has indicated that, as part of a revitalization of comptrollership across the DND/CF, fundamental financial controls, including financial certifications, will be reviewed and strengthened/reinforced.

Recommendation 6 (paragraph 31), "Training"

With regard to the administration of PAYEs, procedures outlining the criteria and the establishment of such are outlined annually within the Year-end Procedures issued by DG Fin/DFPP. In addition, training has been provided on year-end procedures in the past two years, with particular emphasis being placed on PAYEs this Fiscal Year. Furthermore, DG Fin/DB monitors PAYEs at year-end and throughout the year. Therefore, this item has in fact been actioned (and the recommendation therefore is supported.)