



HOUSE OF COMMONS  
CANADA

**CHAPTERS 3 (THE SPONSORSHIP PROGRAM),  
4 (ADVERTISING ACTIVITIES AND  
5 (MANAGEMENT OF PUBLIC OPINION RESEARCH) OF  
THE NOVEMBER 2003 REPORT OF THE AUDITOR  
GENERAL OF CANADA**

**REPORT OF THE STANDING COMMITTEE  
ON PUBLIC ACCOUNTS**

**John Williams, M.P.  
Chairman**

**April 2005**

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# **STANDING COMMITTEE ON PUBLIC ACCOUNTS**

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# **THE STANDING COMMITTEE ON PUBLIC ACCOUNTS**

has the honour to present its

## **NINTH REPORT**

In accordance with its mandate, under Standing Order 108(3)(g), the Standing Committee on Public Accounts has considered Chapters 3 (The Sponsorship Program), 4 (Advertising Activities) and 5 (Management of Public Opinion Research) of the November 2003 Report of the Auditor General of Canada and has agreed to report the following:





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# **LIST OF RECOMMENDATIONS**

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## **RECOMMENDATION 1**

**That the government provide the Committee with an action plan that includes target implementation and completion dates for the components of the Auditor General's recommendation.**

## **RECOMMENDATION 2**

**That the government provide an annual report to the House of Commons on progress being made in implementing the action plan until it is completed.**

## **RECOMMENDATION 3**

**That financial services units in departments and agencies review supporting documentation, as per recommendation 19 below, to ensure that it is correct before issuing payments for contracts.**

## **RECOMMENDATION 4**

**That financial services units in departments and agencies challenge requests for contract payment on both a random and a risk basis.**

## **RECOMMENDATION 5**

**That all programs and activities involving contracts, grants and contributions, and transfers to other departments or agencies be subject to a regular schedule of internal audits.**

## **RECOMMENDATION 6**

**That internal audit be placed under centralized authority located within Treasury Board Secretariat.**

## **RECOMMENDATION 7**

**That overall authority for the internal audit function in government be assigned to the Comptroller General of Canada.**

## **RECOMMENDATION 8**

**That the government continue to restore the internal audit function and report to Parliament on the status of the internal audit function on an annual basis, addressing such issues as the levels of human, financial, and technological resources being devoted to the function.**

## **RECOMMENDATION 9**

**That there be mandatory follow-ups of internal audits within one year of an initial audit with the results posted on the Treasury Board Secretariat Web site.**

## **RECOMMENDATION 10**

**That all decisions to reject recommendations stemming from internal audits be documented, reported to Treasury Board Secretariat, and posted on the Treasury Board Secretariat Web site.**

## **RECOMMENDATION 11**

**That all new branches within departments and agencies be subject to internal review one year following their establishment and a follow-up internal audit be conducted within six months.**

## **RECOMMENDATION 12**

**That the Comptroller General of Canada be authorized to sign off on all internal re-organizations or creation of new departments or agencies to ensure that the corporate and internal audit systems remain intact, functioning, adequate, and capable.**

## **RECOMMENDATION 13**

**That internal audit units monitor adherence to contracting rules and regulations and report non-compliance to Treasury Board Secretariat.**

## **RECOMMENDATION 14**

**That administrative penalties up to and including dismissal from the Public Service of Canada be established to discourage non-compliance with contracting rules and regulations.**

#### **RECOMMENDATION 15**

**That when public service employees working in procurement are subject to annual evaluations, or are being considered for performance bonuses or promotion, adherence with contracting rules and regulations be taken into account.**

#### **RECOMMENDATION 16**

**That Treasury Board Secretariat report to Parliament on a regular, timely basis on departmental contracting activity. Reports should include references to instances of non-compliance and corrective measures/sanctions.**

#### **RECOMMENDATION 17**

**That Treasury Board Secretariat actively challenge departments on their contracting activities with an emphasis on areas of highest risk.**

#### **RECOMMENDATION 18**

**That Treasury Board Secretariat amend its contracting policies to require that the awarding and management of contracts are conducted as separate activities by separate units within departments, enforce these policies and monitor their application to ensure that they are rigorously adhered to.**

#### **RECOMMENDATION 19**

**That departments provide clear statements of required documentation on files involving contracting, grants and contributions, and communications and advertising activities, to satisfy accountability, internal audit, performance reporting, and payment requirements.**

#### **RECOMMENDATION 20**

**That Treasury Board Secretariat amend the appropriate policies by the inclusion of a prohibition against issuing payments of grants or contributions, or for contracts in the absence of required documentation.**

#### **RECOMMENDATION 21**

**That Parliament's ability to hold Crown corporations to account be enhanced.**

#### **RECOMMENDATION 22**

**That Parliament's involvement in the selection and appointment of heads of Crown corporations be enhanced.**

#### **RECOMMENDATION 23**

**That the *Auditor General of Canada Act* be amended to give the Auditor General the authority to conduct performance audits of all Crown corporations and to report the results directly to Parliament, and that the Office of the Auditor General be given the resources necessary to do so.**

#### **RECOMMENDATION 24**

**That the *Auditor General of Canada Act* be amended through the inclusion of a clause giving the Auditor General the authority to conduct an audit of the records, files, documents and accounts of any individual, establishment, institution or enterprise in relation to the receipt and/or use of any grant, contribution, or transfer under an agreement made to it by the Government of Canada.**

#### **RECOMMENDATION 25**

**That departments and agencies be required to include sections in their performance reports that specifically address contracting activities, grants and contributions, and transfers to other departments or agencies. The goals and objectives of these activities, performance indicators, and results must be clearly stated.**

#### **RECOMMENDATION 26**

**That Treasury Board Secretariat develop a more effective monitoring and compliance regime, to ensure that departments and agencies reflect existing guidelines in their performance reports.**



#### **RECOMMENDATION 27**

**That all programs involving payment to individuals or entities outside government that do not result in the direct receipt, by government, of goods or services in return be framed as contributions under the Treasury Board's Policy on Transfer Payments.**

#### **RECOMMENDATION 28**

**That section 41(2)—41(3) of the *Public Service Employment Act* be repealed immediately.**

#### **RECOMMENDATION 29**

**That Treasury Board Secretariat examine the procedures that are in place for reviewing and approving candidacies for all EX-level appointments and promotions to ensure that past performance is taken into account.**



## PART I — INTRODUCTION

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On 10 February 2004, the Speaker of the House of Commons tabled the November 2003 Report of the Auditor General of Canada in the House of Commons.<sup>1</sup> Pursuant to Standing Order 108(3)(g), this report was referred to the Standing Committee on Public Accounts.

Chapters 3, 4, and 5 of the report informed Parliament of the results of a series of government-wide audits focused on sponsorship, advertising, and public opinion research, respectively. In her overview of this series of audits, the Auditor General of Canada summarized her findings in the following manner:

We found that the federal government ran the Sponsorship Program in a way that showed little regard for Parliament, the *Financial Administration Act*, contracting rules and regulations, transparency, and value for money. These arrangements — involving multiple transactions with multiple companies, artificial invoices and contracts, or no written contracts at all — appear to have been designed to pay commissions to communications agencies while hiding the source of funding and the true substance of the transactions.

We found widespread non-compliance with contracting rules in the management of the federal government's Sponsorship Program, at every stage of the process. Rules for selecting communications agencies, managing contracts, and measuring and reporting results were broken or ignored. These violations were neither detected, prevented, nor reported for over four years because of the almost total collapse of oversight mechanisms and essential controls. During that period, the program consumed \$250 million of taxpayers' money, over \$100 million of it going to communications agencies as fees and commissions.

Public servants also broke the rules in selecting communications agencies for the government's advertising activities. Most agencies were selected in a manner that did not meet the requirements of the government's contracting policy. In some cases, we could find no evidence that a selection process was conducted at all.<sup>2</sup>

While the Auditor General determined that “[o]verall, public opinion research was managed transparently,” she had discovered instances in which guidelines had not been followed and departments had not established a clear need to conduct public opinion research.<sup>3</sup>

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<sup>1</sup> Tabling was delayed because the House of Commons was not sitting.

<sup>2</sup> Office of the Auditor General of Canada, Report of the Auditor General of Canada to the House of Commons, November 2003, chapters 3, 4, 5, Overall Main Points, p. 1. (<http://www.oag-bvg.gc.ca>).

<sup>3</sup> Ibid., p. 1.

The activities covered by the audits represented significant expenditures. Between fiscal year 1996-1997 and 31 March 2003 the federal government spent approximately \$250 million to sponsor 1,987 events. Of this amount, over \$100 million went to communications agencies for production fees and commissions.

Between 1998-1999 and 2002-2003, the government conducted more than 2,200 advertising activities with contracts valued at about \$793 million. (Report, paragraph 4.9) In 2001-2002, the government coordinated 686 public opinion research projects at a cost of \$26.2 million. In 2002-2003, 576 projects were involved, at a total cost to the government of \$23.7 million.

As a consequence of the large expenditures for these collective activities and the serious nature of the Auditor General's findings, the Committee decided to conduct an extensive review of the audit results.

#### **A. The Goals of the Committee**

The Committee considers that one of its most important functions is to help uphold, maintain, and strengthen the lines of accountability between government, Parliament, and Canadians.

Throughout its review of the audit results, the Committee has had two principal objectives in mind. The first has been to establish and clarify the facts. The second, longer-term objective has been to explore the nature of the relationship between the political and administrative aspects of government as embodied by the interaction between the executive (cabinet and more particularly, the ministers of which it is composed) and senior levels of the bureaucracy. Put more simply, the Committee is particularly interested in the relationship between ministers and deputy ministers. This longer-term objective has required an in-depth examination of the broader accountability relationship that exists within the public service of Canada and the theory and practice of ministerial and deputy ministerial accountability. The Committee has therefore continued its study in this area in the 1st Session of the 38th Parliament with the intention of tabling a second report concentrating exclusively on ministerial and deputy ministerial accountability.

As the Committee worked to establish and clarify the facts surrounding the Sponsorship Program, it has laboured under several obligations. The first is to the people of Canada who deserve an explanation of what went wrong and need to know how the potential of it ever happening again can be diminished and, if possible, entirely eliminated. The second, and closely related obligation is to the continued health of the institutions of representative government and the public sector organizations that support them; the Committee intends to fulfil this obligation when it reports its conclusions and recommendations regarding ministerial and deputy ministerial accountability.

The Auditor General has told Parliament and Canadians what happened. The Committee's role is of a different order. As a committee composed of elected representatives of the people of Canada, the Public Accounts Committee has been guided by a profound sense of its responsibility towards Canadians to establish first of all and to the best of its ability, how the abuses reported by the Auditor General occurred, why they occurred, to identify who is responsible, and to ensure that proper checks and balances are put in place to prevent a recurrence of a similar event.

The process of discovering and clarifying the facts is eclipsed by a higher obligation. Steps — urgent steps — must be taken to ensure that the institutions of government remain worthy of the respect, support, and above all trust of Canadians. The abuses uncovered by the Auditor General, although confined to one department and a small number of individuals within it, cast a pall over government in its entirety and threaten to undermine the support of Canadians without which democratic government cannot function.

The third obligation under which the Committee laboured was therefore to the women and men who work in the institutions of government, without whose skill and dedication government cannot be what it must be: the servant of the Canadian people.

Without doubt, those who feel the anger over the sponsorship file most acutely are the overwhelming majority of public office holders — elected and non-elected alike — whose highest ambition is to serve Canada and its people and who have done so honourably, faithfully, and in adherence to the rules governing their conduct. These men and women feel deeply betrayed by the handful among them who, in the words of the Auditor General “broke just about every rule in the book.”<sup>4</sup> The Committee feels a special obligation towards these public servants who must have some guarantee that their reputations be protected against further injury. The Committee is also mindful that unless this happens, the ability of the public sector to attract the best-qualified and most talented men and women in the future may suffer irreparable damage.

To truly meet these obligations, the Committee must seek out constructive means that will ensure that problems revealed by the audits do not re-occur and to place them before the House of Commons and the Government of Canada in the form of practical recommendations.

The Auditor General has already made recommendations of an administrative nature which the Committee supports without exception; the Government of Canada has accepted these recommendations and taken additional steps of its own (see the section on corrective measures listed in Appendices C and H).

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<sup>4</sup> Office of the Auditor General of Canada, *News Release*, 8 May 2002.

## **B. A Word About Our Witnesses**

To pursue its objectives, the Committee held 47 meetings during which it has heard from 44 witnesses, some of them more than once.

A complete list of these witnesses is contained in Appendix A of this report. However, the Committee owes a special debt of gratitude to those public servants who have stepped forward to assist it in its inquiry. Knowledge of the internal operations of the departments involved and, in particular, of the procurement process and how it should work — and did not work, in this instance — would not have been available without their help.

The Hon. Reg Alcock, President of Treasury Board, did facilitate the appearance of public service witnesses before the Committee with a pledge that no administrative actions would be launched against them for having done so. This was backed up by the Committee in its first and second reports (37th Parliament, 3rd Session) to the House of Commons in which it called for protections offered by pending “whistle blowing” legislation to be extended retroactively to these men and women.<sup>5</sup> Nevertheless, the Committee recognizes the fortitude of its public service witnesses whose devotion to duty overcame any reluctance they may have felt and who came forward to help ensure that the truth of these matters would emerge.

Finally, the Committee wishes to thank Mr. Allan Cutler, a career public servant with Public Works and Government Services Canada, who became concerned about problems with the management of advertising contracts in 1995 and began reporting them in 1996. Mr. Cutler’s concerns resulted in the first of a series of internal reviews and audits that would eventually lead to the Auditor General’s 2001 and 2003 audits. In response to his insistence that contracting rules be followed and having raised his concerns with the Department’s Audit and Review Branch, Mr. Cutler was initially told by his Director General, Mr. Guité, that he would be declared surplus — in other words, laid off.

Following an intervention by his professional association, Mr. Cutler was instead transferred outside the Advertising and Public Opinion Research Directorate (APORD, the precursor to the Communications Co-ordination Services Branch). Until this happened, Mr. Cutler had to continue working under Mr. Guité. Throughout this period, until a formal grievance that Mr. Cutler had initiated was launched, Mr. Cutler felt that his “employment security was uncertain and all prospects for [his] career advancement [had] vanished.”<sup>6</sup>

The Committee sincerely regrets the treatment that Mr. Cutler had to endure as a consequence of having done the right thing. It also regrets that the concerns he raised did

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<sup>5</sup> Tabled 2 February and 12 March 2004, respectively.

<sup>6</sup> Mr. Allan Cutler, *Synopsis of Evidence*, p. 4, document presented to the House of Commons Standing Committee on Public Accounts.

not end the abuses he had observed and result in a change of management in APORD. Had that been done, the Sponsorship Program might have been managed and administered in accordance with the rules and public funds spent transparently and for the sole purposes for which they were intended.

## PREVIOUS INQUIRY

### **A. May 2002 Special Audit Report of the Auditor General of Canada (*Report to the Minister of Public Works and Government Services Canada on Three Contracts Awarded to Groupaction*)**

On 8 May 2002, the Office of the Auditor General released the results of an audit requested by the Minister of Public Works and Government Services of Canada, the Hon. Donald Boudria, of three contracts awarded to Groupaction Marketing.<sup>7</sup> The Auditor General found that:

... Senior public servants responsible for managing the contracts demonstrated an appalling disregard for the *Financial Administration Act*, the *Government Contracts Regulations*, Treasury Board policy, and rules designed to ensure prudence and probity in government procurement.

The government files on the three contracts [were] so poorly documented that many key questions remain[ed] unanswered surrounding the selection of the contractor and the basis for establishing the price and scope of work for the contracts. In our opinion, the government did not receive much of what it contracted for and paid for.

In particular the Auditor General found the following:

- The government did not receive everything it contracted for and paid for. Key elements of what was specified in the contracts were never delivered, and no one has been able to find a report for the second contract, for which the government paid \$549,990.
- Officials approved payments for work that varied considerably from what the contracts specified. In a few cases, payments were approved with the knowledge that the requirements of the contracts had not been fully met.
- Payments were made that the Auditor General was told were for verbal advice, but no such advice was either stipulated in any of the contracts or documented as having been received.

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<sup>7</sup>

Office of the Auditor General of Canada, Report to the Minister of Public Works and Government Services of Canada on Three Contracts Awarded to Groupaction, 8 May 2002 (<http://www.oag-bvg.gc.ca/domino/reports.nsf/html/02sprepe.html>).

- The first contract had been amended to double its value without any documentation to support the need for the amendment.
- None of the documents ... examined contained any explanation of how the government had determined the need for the services or why it had decided that contracting was the best way to fill the need.
- No evidence was found that a proper selection process was followed in awarding the first contract.
- There was little documented support for the decision to award the second and third contracts to Groupaction.
- Officials did not comply with the requirements of the *Financial Administration Act* and contracting regulations and did not verify that the amount of time billed for by the contractor was an acceptable reflection of the work that was done.

## **B. The Tenth Report of the Public Accounts Committee**

Following a series of hearings on the Special Audit Report, the Committee tabled its Tenth Report (37th Parliament, 2nd Session) on 20 March 2003. The Committee made 12 recommendations calling for improved scrutiny and enforcement of the Government of Canada's contracting regulations building on previous recommendations,<sup>8</sup> better arrangements and protection for public servants wishing to report workplace wrongdoing, and a restructured and better funded internal audit function in government.

In its report the Committee noted that the Auditor General was conducting a government-wide audit of advertising and sponsorship programs and planned to report the results at the end of 2003. The Committee indicated its:

[f]irm belief that the situation warrants a full review of what went wrong and how to fix it. Accordingly, the Committee applauds the Auditor General's decision to conduct a full-scale audit of advertising and sponsorship programs, and looks forward to the results.<sup>9</sup>

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<sup>8</sup> House of Commons Standing Committee on Public Accounts, 28th Report, 36th Parliament, 1st Session, tabled 5 May 1999; House of Commons Standing Committee on Public Accounts, 12th Report, 36th Parliament, 2nd Session, tabled 8 June 2000.

<sup>9</sup> House of Commons Standing Committee on Public Accounts, 10th Report, 37th Parliament, 2nd Session, tabled 20 March 2003.



## PART II — A SUMMARY OF THE EVIDENCE

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The key to addressing these kinds of problems [serious mismanagement and breaches of the public trust] is understanding what caused them in the first place. In the early 1990s, many popular management theories emphasized innovation and service and devalued rules and control. ... We began moving away from transactional controls. ... [The public benefited from better service.] But we also lost some of our rigour. We removed some departmental controls while we were reducing central oversight. As we brought in new staff, we did not make sure that they had the training they needed to do their jobs well. We did not develop the information systems that would help us keep proper track of financial and operational performance ... we may have lost sight, sometimes, of the basics.<sup>10</sup>

[W]ith the cutbacks during program review, many of the controls and oversight mechanisms were reduced during that period. I think people focused on the front line delivery and the delivery of services. In many of what are sort of viewed as being administrative procedures, there were cutbacks on that. I think when we look to many of our audits we can see evidence of that. This one though, I quite honestly don't think is the same. This one was set up outside the normal framework of public works. This wasn't just a few people trying to go a little faster by reducing a few of the controls. From the very beginning of this program it would appear to have been set up and established quite outside what is generally not a bad framework for control and oversight within the Department of Public Works and Government Services.<sup>11</sup>

### PUBLIC WORKS AND GOVERNMENT SERVICES CANADA

The Sponsorship Program was managed by a branch of Public Works and Government Services Canada (PWGSC, the Department). This Department was given statutory existence in July 1996, following the 1993 merger of Public Works Canada and Supply and Services Canada.

The new entity was — and still is — one of the largest in the federal government, and presides over a complex, costly, and vital mandate. According to the Minister's message that appeared in the Department's Performance Report for the period ending 31 March 1997, PWGSC supported the "day-to-day operations of more than 100 departments and agencies across government," including contracting activities. With reference to the latter, the Minister noted that:

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<sup>10</sup> Alex Himelfarb, Clerk of the Privy Council, *Eleventh Annual Report to the Prime Minister of Canada on the Public Service of Canada*, March 2004.

<sup>11</sup> Sheila Fraser, Auditor General of Canada, testimony before the Standing Committee on Public Accounts, 3 May 2004 (38:1135).

As the country's largest [public sector] purchasing agent, [the Department] manages some 75,000 contract actions, buying goods and services from businesses and individuals valued at \$8.2 billion annually.<sup>12</sup>

Currently, the Department has 14,000 employees. It contracts for and awards approximately 40,000 contracts on an annual basis, makes about 20,000 amendments to contracts, all totalling around \$10.5 billion. With this high volume of contracts comprising significant outlays and involving the work of large numbers of its employees, the Department exercises careful scrutiny over its transactions. As the Department's current Deputy Minister, Mr. David Marshall, noted, PWGSC normally "operated under a fairly sophisticated system of internal controls." Former Deputy Minister, Mr. Ranald Quail told the Committee that there were:

[c]ontrols in place in the Department to deal with the way in which matters were to be managed, witness a strong governance framework, strong executive operation, well-developed risk management operation and an internal audit function. As well, we had developed an ethics and development program that began in 1997.

The Auditor General made a similar observation, writing in paragraph 3.91 of her report that:

[t]o achieve its objectives, PWGSC has established a fairly sophisticated system of internal controls and accountability reporting. While our previous audits have found some weaknesses in contracting and other management processes, we have also found that the Department's systems of internal controls are generally reliable.

Yet the Auditor General found that the Sponsorship Program "operated in a weak control environment."

When he appeared before the Committee on 24 February 2004, Mr. Marshall, the current Deputy Minister of Public Works and Government Services, tabled two flow charts. The first depicted the Department's control framework for a typical procurement process. This process is rigorous and designed to ensure that contracts are issued in conformity with government policies and result in value-for-money for the Crown and Canadian taxpayers. This, the Committee was given to understand, represents the norm. The second flow chart, modelled on the first, tells a different story. It depicts how procurement was managed inside the Communications Co-ordination Services Branch (CCSB). It shows that none of the steps of the procurement process, save a handful of the preliminary ones, were followed in the CCSB. (See Appendices D and E.) In effect, there was no control environment within the Branch that was managing the Sponsorship Program and the Branch was completely divorced from the Department's rigorous control environment.

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<sup>12</sup> Public Works and Government Services Canada, *Performance Report for the period ending 31 March 1997*, Ottawa, 1997, p. 1.

## ADVERTISING AND PUBLIC OPINION RESEARCH SECTOR (APORS)

Prior to the creation of the Communications Co-ordination Services Branch in PWGSC, a series of entities within the Department handled advertising activities. Initially, the Advertising Management Group (AMG) was involved in the selection of advertising firms to provide advertising services to government departments and agencies. The AMG was also responsible for monitoring the quality and effectiveness of government advertising.

A separate group, headed by Mr. Allan Cutler, negotiated individual contracts with the advertising firms that had been chosen by the Advertising Management Group. The negotiation would establish the price and terms of the contracts. Mr. Cutler testified that there was little contact between the AMG and his group.

In 1990, Mr. Charles Guité became the head of the AMG. Mr. Cutler told the Committee that in 1994, Mr. Guité began “interfering in the contracting process by authorizing agencies to carry out work without a pre-existing contract.”

On 17 November 1994, Mr. Guité met with the group headed by Mr. Cutler that was responsible for negotiating contracts. Mr. Cutler testified that at this meeting,

Mr. Guité told us that the normal rules and regulations would not apply to advertising. He said that he would talk to the Minister and have them changed.<sup>13</sup>

One week later, Mr. Cutler and two of the employees working under his direction were told that they would be transferred to Mr. Guité’s section — which was physically located outside PWGSC — and would report to him. The Advertising Management Group had been renamed the Advertising and Public Opinion Research Directorate (APORD, which was itself renamed the Advertising and Public Opinion Research Sector — APORS — in 1993). Mr. Cutler told the Committee that at that time, Mr. Guité’s responsibilities were expanded to include not only the selection of advertising firms but also the negotiation and awarding of contracts to those firms.

Mr. Cutler testified that following his transfer, he became concerned about APORD’s contracting processes because:

[c]ontracts were regularly being backdated; commissions were paid for services apparently not performed; there appeared to be improper advance payments; in circumstances where ministerial, Treasury Board or legal authorization were required, they were not sought [and]; contracts were issued without prior financial authorization.

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<sup>13</sup> The Minister of Public Works and Government Services at the time was the Hon. David Dingwall. See Appendix B.

Mr. Cutler added that he:

[w]as expected to issue contracts on terms provided by Mr. Guité. I was no longer expected to negotiate prices with advertising agencies, or to insist on the established government contracting practices.

Deeply troubled by what he saw and what he was being asked to do, Mr. Cutler brought his concerns to Mr. Guité, whom he testified, “became upset.” As a consequence, Mr. Cutler was left with the impression that his job was in jeopardy. He began to keep a log that eventually covered the period between February 1995 and February 1996 detailing the contracting irregularities that he observed. Mr. Cutler stated that “on many occasions” he was asked to prepare and award contracts in circumstances he considered “questionable or improper.”

In April 1996, following his refusal to sign an approval authority and contract, Mr. Cutler indicated that he was told by his immediate supervisor (Mr. Mario Parent) that he would pay a price for his refusal. At this point, Mr. Cutler contacted his professional association (Professional Institute of the Public Service), which in turn wrote, on 13 May 1996, to Mr. Jim Stobbe, the Department’s Assistant Deputy Minister for the Government Operations Services Branch. Consequently, Mr. Cutler was asked to bring his concerns to the Department’s Audit and Review Branch, which he did.

## **INTERNAL REVIEW AND ERNST AND YOUNG AUDIT, 1996**

The seeds of the problem [in the Sponsorship Program] were identified by the Ernst & Young audit back in 1996.

Norman Steinberg

On 28 May 1996, the Audit and Review Branch of PWGSC interviewed Mr. Cutler. A memo was then sent to Assistant Deputy Minister Jim Stobbe who requested a more in-depth review of the material provided by Mr. Cutler. On 7 June 1996, the Department’s Internal Affairs Directorate reported that the “[a]llegations made [by Mr. Cutler] in relation to the contracting processes of the Advertising and Public Opinion Research sector are founded.”

The Audit and Review Branch interviewed Mr. Cutler a second time and on June 19, the Branch informed Mr. Stobbe, via a memo, that “there is sufficient documentation to support allegations initially raised by [Mr. Cutler] specifically referring to backdating of contracts to facilitate the contracting process at the request of a client department.” Mr. Steinberg also wrote in the memo that:

[t]he issue here [is] one of policy and procedures which may in themselves be faulty, however individuals are trying to overcome these by taking shortcuts or inventing methods which have led to willful alteration of documents which, if

examined by an audit or outside regulatory agency would raise questions of probity in the manner in which the department is fulfilling its duties and obligations with respect to contracting.<sup>14</sup>

As an example, Mr. Steinberg indicated that:

[a]n original requisition was submitted by [Mr. Cutler] clearly depicting an intentional and wilful effort to show the requisition was received at a later date to correspond with a request for contract date.<sup>15</sup>

He noted, however, that the actions he had reviewed did not appear to be for profit or personal gain and instead raised questions of an ethical nature. Responding to its initial review findings, the Audit and Review Branch began steps to bring in an outside firm to conduct an audit of APORS.

Mr. Steinberg testified that the Deputy Minister (Mr. Ranald Quail) was also informed in June 1996 of Mr. Cutler's allegations of contract manipulation and of the pending audit initiated to investigate them.

On 24 June, Mr. Guité circulated a memo indicating that he had asked that all APORS files be kept under lock and key in preparation for the audit.

Ernst and Young, the firm hired to conduct the audit, examined APORS' contracting activities that took place between June 1994 and 30 June 1996. The terms of reference called for a comprehensive audit and the identification and examination of any cases in which non-compliance with contracting policies would have led to possible instances of personal gain or benefit.

The results of the audit were released in a final report dated November 1996. Ernst and Young found that public opinion research was "in compliance with prescribed policies and procedures," and that "with a few exceptions," policies and procedures governing APORS were "appropriate." Ernst and Young also reported that "no instances" had been found "where non-compliance might have led to situations of personal gain or benefit."<sup>16</sup>

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<sup>14</sup> Public Works and Government Services Canada, Memorandum to Mr. J. Stobbe from Director General Audit and Review Branch, file No. 1530-96-056-11/5, 19 June 1996.

<sup>15</sup> Ibid.

<sup>16</sup> Ernst and Young, *Advertising and Public Opinion Research Sector: Compliance Audit of Contracting Process, Final Report*, November 1996, Executive Summary.

However, the audit also found with regard to advertising contracts that there were “recurring instances of non compliance with specific contracting policies.”<sup>17</sup> More specifically, the report included the following observations:

- APORS chose the private-sector members of selection committees established to evaluate advertising firms for specific client departments, not the client departments as called for by policy.
- Requisition forms from client departments authorizing the issuing of contracts were not always on file and there were instances in which proper authorization was missing.
- Contrary to policy requirements, there were no legal or cost analyses for contracts where delegated authority was being exercised by APORS.
- There were instances in which APORS did not comply with a requirement that it recommend contract approval to Treasury Board when the value of a contract exceeded APORS’ contracting limit; and
- There were instances in which documents had been back-dated.

Ernst and Young concluded that:

The initial mandate of APORS was to provide advisory services to government departments on advertising and public opinion research. Given procurement is only a small portion of their activity; individuals [i.e., employees within APORS] are not specifically trained in the procurement function. They do not have the necessary expertise as it is not their primary focus or goal. It may be more beneficial to all parties *to incorporate the procurement and advertising and public opinion research within the normal procurement stream of PWGSC services.*<sup>18</sup>

In other words, Ernst and Young recommended that the separation between the selection of advertising firms and the negotiation of contracts — procurement — that had existed prior to November 1994 be restored. Mr. Stobbe (the Assistant Deputy Minister responsible for APORS) reviewed the audit findings. A management response that Mr. Steinberg testified indicated “acceptance of the recommendations” and an action plan were presented to the departmental Audit and Review Committee in July 1997. In September 1997, according to Mr. Steinberg, the executive summary of the audit and the management response were provided to Treasury Board Secretariat for posting on its Web site.

Mr. Quail, the Deputy Minister in charge of the Department at the time, told the Committee that following the completion of the Ernst and Young audit, the Department

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<sup>17</sup> Ibid.

<sup>18</sup> Ibid., emphasis added.

obtained “an undertaking from the APORS group to take corrective action.” He later repeated this statement, adding “and it was left there.” In a subsequent appearance before the Committee, Mr. Quail stated that he started with:

[t]he assumption that the person that undertook to do the work that’s in the remedial plan associated with the audit will do it. I take that as a given, I expect it and that I think that’s a reasonable way to proceed with respect to trust.

Yet, the Committee saw no evidence that a formal follow up was undertaken to verify that APORS had implemented corrective action.

Indeed, Ernst and Young's central recommendation was never implemented. Mr. Quail told the Committee that procurement “never went into the mainstream at all ... it did not happen.” When he was asked why procurement had not been removed and placed within the Department's central procurement function, Mr. Quail replied:

That was the way in which he [the Minister] wished to have that group [APORS] organized ... he wanted procurement left alone.<sup>19</sup>

It is noteworthy, however, that the account of events provided by the Minister to whom Mr. Quail refers — the Hon. Alfonso Gagliano — differs significantly from that of Mr. Quail with respect to the responsibilities exercised by the Minister. According to Mr. Gagliano, he was not told of the problems identified by the 1996 audit, and was not made aware that an audit had been done. When asked if the failure to separate selection and procurement functions did not give rise to concern, the Minister replied: “Not at that time. I believe the Treasury Board guidelines were specific, that procedures should be followed. ... I would like to remind you that the moment in the audit 2000 I found there were problems, that’s what I exactly did; I separated the two.” This version of events was given a measure of support by Mr. Guité, who told the Committee that the decision to leave arrangements as they had been before the audit would not have been his, but the deputy minister's.

Thus the combination of roles remained undisturbed when APORS was merged into a new entity, the Communications Co-ordination Services Branch, as observed by the Auditor General when she conducted her audit in 2003: “[f]or the Sponsorship Program, ..., contracting and financial management were handled by the CCSB and not a central division [in the Department].” She added that:

[t]he Executive Director of CCSB [Mr. Guité] reviewed the requests [for sponsorship funding] and decided which events would be sponsored and which communications agency would get the contract. ... At the request of the Executive Director, program staff prepared the requisition and forwarded it to CCSB's procurement staff, who completed the contract. ... The Executive Director approved the payments to the contracted communications agencies.

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<sup>19</sup> The Hon. Alfonso Gagliano was Minister of Public Works and Government Services at the time.

There would be no further internal audits conducted until 2000 because, as Mr. Quail put it, “there was no indication that there was anything wrong. If there had been an indication of something wrong, we would have put in an audit sooner.”

## THE SPONSORSHIP PROGRAM

The Sponsorship Program began as an initiative while APORS was still in existence. On 20 November 1996, PWGSC approached Treasury Board seeking approval for additional funding in the amount of \$34 million to cover a two-year period. To that end, Treasury Board was asked to approve an item in the 1996-1997 supplementary estimates for \$17 million and to create an item for a further \$17 million in the 1997-1998 Reference Levels. According to the submission, the Advertising and Public Opinion Research Sector (APORS) at PWGSC:

[i]s responsible for, amongst other activities, fulfilling a Government of Canada initiative to promote all its programs, policies and services *by means of sponsorship through selective events across Canada*. The events are determined on the basis of audience, visibility, timing and potential impact on the government's programs used at such events.<sup>20</sup>

The submission that was drawn up by Treasury Board Secretariat requesting the funding indicated that “[m]ost recently, APORS is responsible for fulfilling a Government of Canada initiative to promote all of its programs by means of sponsorship through selective events across Canada.”<sup>21</sup> A list of events to be sponsored was appended to the submission. Mr. J.C. Guité, Director General of APORS was listed in the submission as the departmental contact. Approval for the funding request was signed by the then-Minister, the Hon. Diane Marleau, and then-Prime Minister Jean Chrétien. According to Mr. Quail, this decision “was the launch of the program.” He testified that the CCSB “got fully engaged in the Sponsorship Program after the approval of the submission that went forward signed by Minister Marleau and the Prime Minister.” Mr. Quail knew that the sponsorship initiative was an important one. As he told the Committee, it was:

[n]ot every day that you end up with a Treasury Board submission that talks about the need to improve communications, and you find rare, hard dollars to support it and it is signed by both the Minister and PMO. That is an important issue. I don't have to be hit on the head. Those submissions are important documents.

This is not the way in which programs are normally initiated. When she spoke to the Committee, Ms. Kathy O'Hara (Deputy Secretary to the Cabinet, Machinery of Government, Privy Council Office) testified that:

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<sup>20</sup> Treasury Board No. 824628, 21 November 1996. Emphasis added.

<sup>21</sup> Ibid.



A program ... flows from a policy decision that reflects a policy decision. It requires a memorandum to cabinet, because the policy itself has to get approved. Once the policy is approved and the program is funded, then the department and the Minister take the mechanism to Treasury Board to get approval of issues.

In effect, sponsorship began as an initiative and only became a program much later. Again, according to Ms. O'Hara the Sponsorship Program:

[a]ctually wasn't a program — ... — until December 2002 ... [when] Communications Canada actually proposed the program. Until then it was a part of a broad range of communications activities. Originally, going back to 1996-1997, it was handled by ..., a unit called the advertising and public opinion research sector. This was a unit in public works that in 1997 merged and was moved into the CCSB, so when CCSB was created in 1997, the sponsorship activity moved into CCSB ...., in August 2001, when CCSB itself moved, the sponsorship activity moved with it to the CIO [Canada Information Office]. Up until December 2002, when the program was created, it was part of a cluster of communication activities that were handled by those three: first the sector, then the branch, and then the CIO.

Mr. Quail, in his testimony, noted that the use of a Treasury Board submission to inaugurate the initiative that eventually became the Sponsorship Program "may not be exactly the way you do some things, it nevertheless is the way in which this program got started."

Mr. Peter Harder, who during this period was the Secretary to the Treasury Board, advised the Committee that there was no awareness or discussion of problems in the Sponsorship Program in the course of Treasury Board decision-making about the submission. The role of Treasury Board, he asserted, was to ensure that departments understood the applicable rules and guidelines, and had established the appropriate frameworks, but that under the *Financial Administration Act*, deputy ministers are fully responsible and accountable for the financial management of their departments. Mr. Jim Judd, Secretary to the Treasury Board since May 2002, added that the Treasury Board was not aware of the 1996 internal audit because, until a revision of policies in 2000, there was no obligation on the part of PWGSC to disclose the audit. Mr. Judd's testimony was in contrast to Mr. Steinberg's later assertion that an executive summary of the 1996 audit and a management response had been submitted to Treasury Board Secretariat in September 1997.

## **THE COMMUNICATIONS CO-ORDINATION SERVICES BRANCH (CCSB)**

In November 1997, the Communications Co-ordination Services Branch (CCSB) was established within PWGSC in order to develop a more coordinated approach to government communications. CCSB took over some of the responsibilities that had been handled by Canada Communications Group, which had been privatized, and also incorporated APORS and its responsibilities.

As part of efforts to improve the management of the government's communications, processes, and products, the Cabinet Committee on Communications was given the task of overseeing the coordination and harmonization of corporate communications, advertising and public opinion research activities across government. PWGSC was asked to provide secretariat support to the Committee on Communications.<sup>22</sup>

While it is not yet clear how these decisions were reached, Ms. O'Hara of the Privy Council Office testified that the creation of the CCSB was "part of an internal reorganization" that is normally the responsibility of the Minister and the Deputy Minister.

When CCSB was created in November 1997, Mr. Quail and the Department did not take the results of the 1996 audit (that had been reported in July 1997 to the Audit and Review Committee he chaired) and corrective measures into account because, according to Mr. Quail, the 1996 audit:

[d]ealt with, ..., advertising and public opinion research, APORS, and it was a different year ..., [the 1996 audit] didn't really relate to the results of the action of Groupaction. In addition, ... it did not occur to me that it was a relevant document, that we had dealt with it, we had taken action with it, and that we had put it to bed and we had moved on. It was as simple as that.

He added that at the time he "did not see a connection" between the problems unearthed in 1996 and the shortcomings revealed by subsequent audits of CCSB.

Thus, when APORS evolved into the CCSB, any lessons learned from the past were not applied or even considered in the process of restructuring. And the public servant under whose direction serious breaches of contracting procedure had taken place in APORS — Mr. Guité — became the Director General of the new entity. This happened in spite of the problems that had been identified within APORS by Ernst and Young, and the nature of the allegations made by Mr. Cutler.

Mr. Quail testified that when the Department established the CCSB, he wrote to Mr. Guité to inform him that now he was in charge of a Branch, "he would be subject to the processes and review contractual quality control, contract settlement, [in order to] prod awareness and prevention." Mr. Quail stated that he:

[a]dvised him [Mr. Guité] that he should meet with Norm Steinberg, our director general of audit, and go over the governing Treasury Board and Public Works and Government Services Canada policies and directives, and that is what I expected would be done.

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<sup>22</sup> Treasury Board, No. 82565, 15 September 1998.

But Mr. Quail added that he “did not cross-relate the two” (i.e., his decision to ask Mr. Guité to speak to Mr. Steinberg was not related to the findings of the 1996 audit). In further testimony, he indicated that he could not recall whether he had followed up with Mr. Guité to see if he had spoken to Mr. Steinberg as requested.

#### **A. The Executive Director of CCSB**

During the evolution of APOR to APORS, and then to CCSB, Mr. Guité received a series of promotions. He began as a director of advertising and research in the former Department of Supply and Services, and in 1995 he became a director general and was reclassified from an EX-1 to an acting EX-2.

Between 1995 and 1998, Mr. Guité was confirmed in his EX-2 position and subsequently promoted to an EX-3. According to Ms. O'Hara, Mr. Guité's reclassification to an EX-3 position would have been accomplished under authority delegated to the Deputy Minister, Mr. Quail.

Almost a year following the establishment of the CCSB, PWGSC approached Treasury Board seeking approval for the creation of a new position, that of Assistant Deputy Minister, Government of Canada Communications Co-ordination Services, and its classification at the EX-4 level. Mr. Quail testified that Mr. Guité himself initiated the series of moves that led to his reclassification and had obtained the support of the Minister:

Mr. Guité felt that as a result of the continuation of the sponsorship program at the level that was now being approved by Treasury Board on a sequential basis — we never had really a multi-year funding program, but did it by way of sequential Treasury Board submissions — that the position deserved to be looked at. He talked to me about that, and he also talked to the Minister about it. The Minister raised it with me and said that he would like the matter looked at, and whether or not we could move to have Mr. Guité classified at the EX-4 level.

Treasury Board Secretariat evaluated the proposed reclassification and supported it. On 24 September 1998, Treasury Board approved the reclassification and Mr. Guité became an Assistant Deputy Minister reporting directly to the Deputy Minister, Mr. Quail. Throughout this process, the focus was on the position and the responsibilities it entailed rather than on the person who would fill it and his performance. Mr. Quail stated that the proposal to reclassify the position was “drafted against the responsibilities and not the individual.” According to the Minister at the time, the Hon. Alfonso Gagliano he:

[d]idn't sign a Treasury Board submission to appoint Mr. Guité. ... I signed the Treasury Board submission creating a position called Assistant Deputy Minister for Communication and Coordination. That was the position. The filling of the position was not my responsibility.

The Committee also learned that Mr. Guité received performance bonuses throughout his tenure at the helm of CCSB. Prior to becoming an EX-4, Mr. Guité, according to Mr. Quail, would have prepared the evaluation of his own job performance and sent it to the Assistant Deputy Minister for review and approval. After becoming an EX-4, these job performance reviews were sent to Mr. Quail who “would have taken into consideration any comments that [he] had from outside, in particular the Minister’s office.” Mr. Quail stated that he “had no complaints. Okay? So that is the way in which it was done.”

## **B. The Management of CCSB and the Sponsorship Program Under Mr. Guité**

### **1. Centralization of Decision-making**

In her November 2003 Report, the Auditor General indicated that CCSB staff had informed her that the Executive Director “had not involved them in making decisions on sponsorships.” In paragraph 3.24 of her report, she added that:

[a]pparently only a handful of people had participated in decision making, and those who remain at PWGSC, Communications Canada, and other government departments were unable to tell us why certain decisions had been made.

Appearing before the Committee, the Auditor General explained the central concern to which this situation gave rise. “...(The way that group operated CCSB, it did not have the normal checks and balances, even in separation of duties, that you expect to find in an organization. There was a lot of authority vested in the executive director for example.”

This view of the CCSB is supported by the evidence given the Committee by its witnesses. Ms. Huguette Tremblay, who was an administrative assistant and office manager under Mr. Guité (and then his successor, Mr. Tremblay) testified that those involved in the Sponsorship Program within CCSB were not a very big group, in total “maybe ten people. It was very small.”

Mr. George Butts provided the Committee with a very clear description of the way in which procurement process for the Sponsorship Program operated within the CCSB. (A flow chart of how the process ought to work is provided in Appendix D to the report. A second flow chart showing how it actually worked in CCSB can be found at Appendix E.) Mr. Butt’s testimony is worth citing in its entirety:

First of all, in the requirements definition, the Executive Director played a key role in all that was happening. The Auditor General very clearly pointed out there were a number of questions about which program was decided on or funding and how much funding would be decided for each program. Those decisions were all made at the executive director level.

As well, the Executive Director, acting as the project authority, authorized the expenditure of funds and signed the requisitions under section 32 [of the *Financial Administration Act*], committing the funds to be spent. That signed requisition was then processed within CCSB itself.

There are a lot of questions about the strategy. Few records exist to explain what happened.

Clearly the Executive Director, acting as the project authority, looked at existing lists of companies that were in place for quite some time, and that became, in effect, the procurement strategy that was followed.

Moving into solicitation, again the Executive Director determined from that list of prequalified contractors who would be invited. Little information again exists to describe why some were and some were not. I raise this point because again the Auditor General questioned whether these were competitive awards or not, and clearly this is not in accordance with the contract policy.

By inviting these companies to submit a proposal, as opposed to the regular process of posting an RFP [Request for Proposal] and developing evaluation criteria, they would issue a letter of intent along with a questionnaire. They would invite the companies to come in and make a presentation, and then that presentation was reviewed by a selection committee at a very high level and a determination made as to which contractor should get the contract.

With respect to evaluation and negotiations, again it's very difficult to understand how this happened. Records do not exist to explain how a particular source was selected. It's clear, however, that again it was the executive director who was doing the reviewing and moving forward with, "Let's go to contract approval."

Delegated authorities were not respected in this case. The authorities I mentioned earlier are department-wide within CCSB. The Executive Director guarded this. He approved the entry to the contract. He also, in effect, lacked any type of competition in what was going on, as the Auditor General has stated.

On contract awards, the approval grid again was not respected. The Executive Director kept this very, very close ... the small team that was there. The Auditor General also recognized in her report that there were a number of verbal agreements lacking contractual documentation.

So when we talk about distributing documents to the finance authority and the project authority, some of these came after the fact.

In contract administration, again the project authority, the Executive Director fulfilled both roles, acting as contract authority and amending contracts as he so chose. Clearly this was an absence of the checks and balances provided within the PWGSC system and it again allowed the projects to go unchecked. The Auditor General clearly pointed out that 21% of all of the contracts reviewed were able to grow, again without any explanation in the contract documentation, in the files.

On the payment process, the acceptance of deliverables was done again by the project authority, not against milestones or hard and fast deliverables of draft reports, etc., but against a reasonability check. So it's very difficult to determine if the services were actually delivered under all of the contracts that were reviewed.

The sign-offs under section 34 [of the *Financial Administration Act*] saying, yes, goods and services have been delivered in accordance with the contract, were done again by the executive director. Lack of evidence of the deliverables, however, causes us to question that.

Moving to the payment authority, ..., rather than a detailed review of, yes, this was done, a verification of the certification, the payment authority was exercised again within CCSB. The Auditor General reported that the certification under section 33 of the FAA [*Financial Administration Act*] had been authorized; however, the section 34 certifications lacked credibility in many cases because of insufficient information on the file.

Mr. Guité's own account of the distribution of responsibilities within the office substantially agrees with that provided to the Committee by Mr. Butts and Ms. Tremblay. As Mr. Guité explained in his discussion of the role of the Minister (see below), the selection of events to sponsor was made from lists provided to the Minister or his staff (in his absence), and discussed at periodic meetings with Mr. Guité. When the invoices arrived, Mr. Guité possessed sole authority to signing them off (although he frequently relied on reports from staff to confirm that the events involved had taken place and the "product" had been delivered).

## **THE 2000 INTERNAL AUDIT**

We wouldn't be here today if the internal audit hadn't done that initial audit in 2000.

Auditor General Sheila Fraser

Between 1996 and 2000, there was no review or internal audit conducted of APORS and the entity that it was merged into, the CCSB. Mr. Quail testified that he:

[d]idn't have any reason to order or to call up an audit, or have any thoughts about the need to call up an audit until I did in February 2000. Is it normal? We carry out 15 to 25 audits per year. That's all we do in the department. It's quite a few, and that we did that on the basis of a structure that we had in place in terms of risk management, etc., and that we did not have CCSB scheduled before I asked for the audit in 2000.

However, in February 2000, Mr. Quail requested the Department's internal audit unit to conduct an audit of the Sponsorship Program. By that time, Mr. Guité had retired from the Public Service, and Mr. Pierre Tremblay — who had transferred to the CCSB from the Minister's office several months beforehand — became acting Executive Director.

According to Mr. Quail, his decision to initiate an internal audit was motivated by his:

[c]oncern with the management of the program when I initiated the internal audit in 2000, ..., is that looking at the horizon and looking at what had happened in HRDC [Human Resources Development Canada] wasn't a grants and contributions programs, but it seemed to me to be prudent that we would undertake an audit in the Department with respect to the Sponsorship Program.

Mr. Steinberg told the Committee that Mr. Quail directed the Audit and Ethics Branch to examine two specific aspects of the Sponsorship Program:

[f]irst, the decision-making process for entering into sponsorship agreements; and second, the contracting process for the agency of record and communications agencies that provided services for sponsored events.

The internal audit began 16 February 2000 and involved a review of sponsorship events that took place between November 1997 and 31 March 2000, and examined a total of 276 files out of a total of 580 known files based on risk. Mr. Steinberg summarized the findings in the following manner:

The contracting process for the agency of record and communications agency did not comply with Treasury Board rules and directives. There was also a lack of documentation — and therefore evidence — of how sponsorship events were approved. The decision-making process did not ensure that sponsorship contracts were transparent; that they complied with contracting requirements or that they were appropriate to achieving value-for-money for the Government of Canada.

As Mr. Steinberg testified, the internal audit revealed “significant and material weaknesses” in the management control framework that was in place in the CCSB with regard to the Sponsorship Program. He emphasized that he considered these lapses “to be significant and unacceptable.”

The results of the audit were presented on 16 August 2000 to the Department's Audit and Review Committee chaired by the Deputy Minister. The Audit and Ethics Branch and the CCSB, working with Treasury Board Secretariat, drew up a 37-point action plan to address the audit findings (see Appendix F). Mr. Steinberg then gave a series of briefings on the results to senior officials from Treasury Board Secretariat, the Privy Council Office, and the Prime Minister's Office. On 25 September 2000, Mr. Steinberg briefed Minister Gagliano. At that meeting, he presented the Minister with the final audit report approved by the Audit and Review Committee.

Mr. Steinberg stated the Minister “expressed concerns that all files were not audited,” and requested that the audit work be extended to include 100 % of the files. He also discussed the action plan drawn up to respond to the audit with the Minister and assured him that it could address the weaknesses that had been found. As acting Executive Director, Mr. Tremblay was in charge of implementing the action plan.

Not long afterward, Mr. Quail and Mr. Gagliano decided to freeze the Sponsorship Program until the end of the fiscal year (31 March 2001) to allow time to implement the action plan.

In September 2001, the CCSB was eliminated, and its communications activities were transferred to a new entity within PWGSC, Communications Canada, which also took over the responsibilities of the recently closed Canada Information Office (CIO). The Sponsorship Program was among the activities transferred to Communications Canada.

## **THE AFTERMATH OF THE 2000 INTERNAL AUDIT**

One of the actions that was called for in the action plan called on the Audit and Ethics Branch to conduct a follow-up review of the sponsorship files. The Audit and Ethics Branch began this review of the files — by then transferred to Communications Canada — on 15 January 2002 and completed it toward the end of February of that year. The review examined the adequacy of documentation on sponsorship files approved between 31 May 2001 and 1 September 2001. A sample of 120 files was examined out of the total of 323 that had been approved during this period.

The follow-up review concluded, in its final report, that:

[f]or the period reviewed, Communications Canada has, with very few exceptions, ensured that all mandatory documents required per the CC [Communications Canada] management process exist and have been included in the approved sponsorship files.<sup>23</sup>

Following the 2000 internal audit and the implementation of the action plan, Ms. Tremblay testified that “there was a much better paper trail in the files.”

### **A. Communications Canada**

In September 2001, the CCSB was merged with the Canada Information Office to become Communications Canada under Executive Director Guy McKenzie. As part of her audit, Mrs. Fraser looked at sponsorship files managed by Communications Canada and found that, despite the fact that “some circumvention of contracting rules continued,” Communications Canada “improved its documenting of the use of criteria in selecting events to sponsor.” She found that there were:

- Improvements in selecting and approving individual projects.

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<sup>23</sup> Public Works and Government Services Canada, Audit and Ethics Branch, Follow-up Review of Sponsorship Files Final Report, 2001-717, 4 March 2002, p. 3.



- Better analyses of the level of sponsorship for each event.
- Better enforcement of the terms and conditions of contracts.
- Improved compliance with relevant authorities.

When he appeared before the Committee, Mr. McKenzie described the efforts he and his staff put in to ensure that the sponsorship files — which he testified were “very thin” when he first saw them — were properly managed. A number of activities were no longer deemed to be eligible for sponsorship — advertising, production of videos, television series, and capital infrastructure — and the focus was put on sponsorships for community-based events run by non-profit organizations. Communications agencies were eliminated as intermediaries. In December 2003, the Sponsorship Program was cancelled.

## **THE QUICK REVIEW TEAM (QRT) AUDIT**

In May 2002, the Auditor General tabled her Special Report in which she presented the findings of an audit of three contracts for work related to the Sponsorship Program.<sup>24</sup> As part of an array of measures taken in response to the Auditor General’s report, the Department initiated a review of sponsorship files covering the fiscal years 1997-1998 to 1999-2000. (A full list of actions taken by the government can be found at Appendices C and H.) A team of departmental employees (Quick Response Team, QRT) looked at a sample of 126 of the 721 sponsorship files from this period, while Consulting and Audit Canada reviewed all 721 files to determine their completeness and to report on any areas of concern.

These reviews produced the following key concerns:

- incomplete and complex project files, resulting in difficulty in determining whether deliverables were met;
- changes to communications agencies (e.g., name changes, mergers) and their affiliations, which added to the complexity of the files;
- absence of reports in PWGSC files;
- potential over billing and potential errors in rates of pay and inadequate reporting;
- potential breach of the *Financial Administration Act* (FAA), Treasury Board and departmental policies; and

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<sup>24</sup> The three contracts in question were not for sponsorships but for background analyses and therefore, as a result, were not covered by the 2000 internal audit done by PWGSC.

- subcontracting without a competitive process.<sup>25</sup>

Elaborating on these concerns, the QRT reported that most of the 126 files of primary interest:

[h]ad deficiencies from a records management perspective. Many files were incomplete, and lacked project information such as requests from organizers, contractual agreements, deliverables lists, signed requisitions, invoices and post-mortem reports.<sup>26</sup>

Commenting on potential over billing and errors in rates of pay, the Team wrote that there may have been:

[a] pattern of over billing by certain communications agencies. In other words, it appeared as though excessive hours were billed by the contractor to perform work that did not warrant the number of hours billed, or that sponsorship funds were paid out for work that was not completed. Information in some files indicated high-dollar value amounts with vague information about what deliverables were expected.

In addition, some communications agency employees were billing as employees of two different communications agencies, raising concerns about the total amounts billed to PWGSC. For example, in some cases, hourly rates for employees varied within the same contract, raising concerns over the validity of the hours charged. The way in which rates of pay were established was also cause for concern.<sup>27</sup>

With regard to subcontracting, the QRT reported that:

[c]ommunication agencies often subcontracted production work to their own affiliated companies, which were often co-located with the communication firm, and, in some cases, commissions of 17.65% were levied on the work performed. Generally, if the work was done in-house, a commission would not apply. It was normally a contractual requirement for communication agencies to seek three bids for subcontracted work with an estimated value in excess of \$25K in order to ensure the Government of Canada received good value for its money, yet there was often little evidence in the files to suggest that such a competitive process was undertaken.<sup>28</sup>

Many of these concerns were also raised by the Auditor General in her November 2003 Report.

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<sup>25</sup> Public Works and Government Services Canada, *Quick Response Team Sponsorship File Review — Final Project Report*, 10 October 2002, p. 2-3.

<sup>26</sup> Ibid., p. 3.

<sup>27</sup> Ibid., p. 3-4.

<sup>28</sup> Ibid., p. 4.

Mr. Rodney Monette, who lead the QRT review, summed up the team's findings in the following manner:

Several key concerns were identified, including: incomplete and complex project files and contracts with vague deliverables, resulting in difficulty in determining whether deliverables were met; changes to communications agencies, such as name changes and mergers and changes to their affiliations, which added to the complexity of the files; absence of reports in the files; potential overbilling and potential errors in rates of pay and inadequate reporting; apparent breaches of the *Financial Administration Act*, Treasury Board policies and departmental policies; and subcontracting without a competitive process.

Mr. Monette informed the Committee that not all of the communications agencies had managed their sponsorship files poorly, and that in fact some "tended to have reasonably good records." He added that "Vickers and Benson, Palmer Jarvis, Groupe Everest, and Compass Communications, ..., tended to have reasonably good records." Commenting later, he added that with regard to Media IDA Vision and Groupe Everest, his "understanding of their systems and procedures and internal controls [was] that they're generally quite good ... we had reasonable confidence in their files." On the other hand, "there were other companies such as Groupaction, Lafleur, Gosselin, and Coffin Communications where these records were not as good." Of the production costs looked at by the QRT, Mr. Monette testified that of a total of \$70 million, \$34 million went to the firms with the better files and \$36 million went to the firms with the not so good files of the production files. He indicated that the predominant problem associated with that \$36 million would have been over billing.

Nevertheless, although the files with some of the communications agencies may have been in good order, the problems identified by the Auditor General lay with the CCSB. As she told the Committee:

All of those documents, all of that proof should be in those files [at the CCSB] before the payment is authorized. Quite frankly, it's not good enough, many years after the fact, to find a post-mortem payment to justify a payment. How could that certification have been made if there was not evidence at the time to make it? ... our report, [and] the previous internal audit report, the Kroll report, clearly show that there was lack of sufficient evidence at the time the payments were certified to be able to justify those payments.

Following the completion of the QRT's review, the Department initiated a forensic audit of selected files, and referred certain issues to the RCMP. Mr. Monette testified that the files for the sponsorship of the Pan Am Games in Winnipeg and files for the sponsorship of the Team Canada-China were generally in good shape and were therefore not referred to the RCMP. The Department also began a time verification audit, initiated the recovery of funds where warranted, and began to investigate potential

breaches of the *Financial Administration Act*, and Treasury Board and departmental policies.

## **CROWN CORPORATIONS**

In the course of her audit, the Auditor General found that the CCSB had transferred sponsorship funds to three Crown corporations: VIA Rail, Canada Post, and the Business Development Bank of Canada (BDC). She informed Parliament that the CCSB:

- [m]ade many of the transfers to Crown entities through communications agencies, who were paid commissions to move the money.
- [h]ad no agreements or partnership arrangements with the Crown corporations whose programs it sponsored.

She added that her audit had found that:

[s]ome payments were based on artificial invoices and contracts; others were subsidies — sponsorship money used by the Crown corporations to cover their normal operating costs.

Mrs. Fraser observed that in exchange for receiving sponsorship funds, Crown corporations and departments were to provide visibility for the Government of Canada. However, in 1998, the Treasury Board's policy on the Federal Identity Program was amended to require Crown corporations (which previously had been exempted) to apply the Canada wordmark prominently on all their corporate identity applications. Given that requirement, the Auditor General questioned:

[w]hy CCSB needed to pay Crown corporations for providing visibility, particularly in those cases where we found no documented evidence of any additional visibility purchased with sponsorship funds.

She commented that she found that the particularly disturbing aspect of these sponsorship payments was that:

[e]ach involved a number of transactions with a number of companies, sometimes using false invoices and contracts or no written contracts at all. These arrangements appear designed to provide commissions to communications agencies, while hiding the source of funds and the true nature of the transactions. The parliamentary appropriation process was not respected. Senior public servants in CCSB and some officials of the Crown corporations were knowing and willing participants in these arrangements.

## A. VIA Rail

Mr. Marc LeFrançois, former President and Chief Executive Officer of VIA Rail,<sup>29</sup> testified that effective control systems were in place at VIA Rail; there was an internal audit function, external audits were performed, and both Houses of Parliament, the President of Treasury Board, and the Minister of Transport all subject VIA to scrutiny.<sup>30</sup>

Mr. LeFrançois rejected the Auditor General's observations about VIA's role in the Sponsorship Program, telling the Committee that her:

[n]egative comments are in sharp contrast to the clear audit opinions that VIA Rail received for the years 1998, 1999 and 2000 from VIA Rail's external auditors at the time, Mr. Denis Desautels, the Auditor General of Canada, and the firm Raymond Chabot Grant Thornton.

Mr. LeFrançois asserted that sponsorship funding used by VIA in the *Maurice Richard* series and the *VIA Magazine* project had the following characteristics:

VIA Rail received full value for all monies spent; the monies spent were part of VIA's mandate and encouraged by a department of government, the Department of Public Works; the process by which monies were spent was not improper and no commissions were paid knowingly by VIA Rail for services rendered to it.

The Sponsorship Program, he argued, was not VIA Rail's responsibility but that of PWGSC and that VIA's receipt of money from the Government of Canada in support of the government's priorities was "a common occurrence. The receipt of sponsorship funds directly or indirectly in aid of government policy was in the ordinary course of business." He denied that VIA had issued fictitious invoices; VIA Rail, he asserted, "did not participate in any imaginary, unreal, counterfeit or not genuine transactions and did not deliver any fictitious documents," nor did it participate in a process to hide the true nature and scope of the transactions. The Auditor General's "negative comments," according to Mr. LeFrançois, "could only be made in a much broader context about which VIA Rail had no knowledge."

Mr. LeFrançois initially did not dispute the finding that a verbal agreement between himself and Mr. Guité had formed the basis for advancing money from VIA to L'Information essentielle for the *Maurice Richard* series. He argued, however, that the "court has ruled a long time ago that a verbal agreement is as legal as a written contract," and that such an agreement "between people that respect each other is as valid as a written contract."

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<sup>29</sup> Mr. LeFrançois was named to the position of Chairman of the Board of Via Rail by former Prime Minister Brian Mulroney in 1993 and was nominated President and Chief Executive Officer in September 2001.

<sup>30</sup> Via Rail reports to the House of Commons through the Minister of Transport.

The Auditor General found that VIA had paid three invoices issued by L'Information essentielle even though there was no contract between VIA and the agency. Mr. LeFrançois testified that as chairman of the board he "took it for granted that the rules,..., would be followed and that they would be followed and that there would be a signed contract." He then told the Committee that there was indeed a contract, but in draft form only, and that he had found the draft in his office, in May 2002 "or something like that" which he refused to sign because the work had already been performed. Mr. LeFrançois dismissed discrepancies found in VIA Rail's financial statements as "an error of interpretation" and "an error of communication of no importance."

Mr. LeFrançois' claims were in marked contrast to earlier testimony given by Mr. Shahid Minto, of the Office of the Auditor General, who had informed the Committee that the process used by the CCSB to reimburse VIA surprised the Office because:

VIA Rail had already paid L'Information essentielle this money. It required the issuance of a fictitious contract by CCSB, a fictitious invoice by VIA Rail, and the involvement of a communications agency, which received \$112,500 for simply moving money between two government entities. VIA Rail did not report this transaction to its board or audit committee.

Mrs. Fraser responded to the assertions made by Mr. LeFrançois in later testimony before the Committee. She provided a copy of a letter signed by Mr. LeFrançois in which he agreed with the facts as stated in Chapter 3 of her November report and testified that:

[i]n late 1998, Mr. Guité asked Mr. LeFrançois to advance \$1 million to Public Works for the *Maurice Richard* series and VIA agreed. It was a verbal agreement. December 1998 the producer invoiced VIA for \$650,000 — ... — and two additional invoices came in August 1999 and those were paid by VIA. Again, there was no contract, no tendering, no evidence as to what had been received.

So up until September 1999 VIA had paid these amounts to Information essentielle. In October 1999 the *Maurice Richard* series, the first broadcast was done, October 1999. In December 1999, Public Works contracted with Lafleur for some \$923,000, including GST, for production work on the *Maurice Richard* series, but the series had already aired. Then on January 18, 2000, Lafleur certified that the work was completed for the event that was to be held between July 31, 1999 and August 14, 1999. On January 10, payments were approved by Public Works, somewhere over \$1 million — ... — based on that certification Lafleur invoiced Public Works \$862,000 and that was approved and paid on March 16. And on March 31, 2000, VIA invoiced Lafleur and Lafleur delivered the cheque to VIA on the same day.

We saw no indication of any support in the file as to why VIA, a railroad company, would be billing a communications agency. So we say there is no substance to this transaction. It was a mechanism. The contract and invoices were put in place to refund VIA for the amounts that it had advanced on behalf of Public Works. There should have been a memo or a letter or something between VIA and Public Works, at best, and they went through this other mechanism to get their money back.

## **1. VIA Magazine**

The Auditor General also raised questions about value-for-money relating to *VIA Magazine*. Mr. LeFrançois told the Committee that he believed that in the case of the *VIA Magazine*:

[T]here were no commissions being paid ... we bought advertising in that magazine for \$500,000 per year. If you look at the report of the Auditor General — what does she say in there — that Satellite Publishing is receiving. ... The deal was, ..., that Cabinet decided to invest \$500,000 a year in *VIA Magazine* to buy advertising ... there was Health Canada and Attractions Canada advertising in the monthly magazines that were produced. The government made a commitment to pay an amount, not to us, but to the business that published the magazine. With that amount, it bought advertising, and, according to the information I have, it paid the same price as anyone else.

In her report, Mrs. Fraser concluded that:

It appears that these transactions were part of an elaborate process used to obtain funds from current PWGSC appropriations to pay for a highly irregular and questionable expenditure incurred by VIA Rail in the previous year and also to facilitate the payment of a commission to the communications agency. In our opinion, this resulted in the circumvention of the parliamentary appropriation process<sup>31</sup>

The Committee found nothing in the evidence presented to it that would in any way detract from, or contradict, those conclusions.

## **B. Canada Post**

The Hon. André Ouellet, former President and Chief Executive Officer of Canada Post<sup>32</sup> denied that Canada Post had spent any money under the Sponsorship Program; instead, he argued, Canada Post was engaged in marketing activities and therefore was not bound by the same rules and procedures that applied to the Program:

The Auditor General said, “You didn’t respect the sponsorship rule.” We said, don’t ask us to respect the sponsorship rule, we don’t think it’s sponsorship. We’re telling you it is a marketing venture, so don’t ask us to apply to a marketing venture the rule of a sponsorship project. It’s two different things.

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<sup>31</sup> Office of the Auditor General, Chapter 3, November 2003 Report, p. 11.

<sup>32</sup> Mr. Ouellet was the Chair of Canada Post Corporation from January 1996 until November 1999 when he became President and CEO. At the time of his appearance before the Committee, Mr. Ouellet was under suspension from his duties as CEO.

The Auditor General noted this difference of view in her report. Yet the problems brought to light by the audit are of concern, regardless of whether they related to sponsorship or not. The Auditor General reported that, in both cases examined (the *Maurice Richard* television series and Stamping the Future) she was unable to find documentation to support payments made by Canada Post; no signed contracts, no signed proposals or business case to support decisions, and no evidence of cost-benefit analyses.

Mr. Ouellet insisted throughout his testimony that Post Canada had managed the projects listed by the Auditor General effectively, in compliance with standards, and within established budgets. He also persisted in his view that adequate documentation was maintained and that it was supplied to the Auditor General during the course of her audit.

### **1. The *Maurice Richard* Series**

VIA Rail and Canada Post sponsored a television series on Maurice Richard that was produced by L'Information essentielle. The Auditor General raised concerns about the lack of documentation at VIA and Canada Post relating to their involvement in the series. In the case of Canada Post, the Auditor General found that the corporation paid \$1.625 million without a signed contract, a signed proposal, or evidence of a cost-benefit analysis (although Canada Post claimed to have performed the latter), all of which are required under Canada Post's own sponsorship policy. Mr Ouellet did not accept the Auditor General's criticism: "We had documentation. ... We had a signed letter of intent with full explanations from L'Information essentielle, so we had documentation."

In addition, in response to the Auditor General's claim that "Canada Post should have followed its sponsorship policy and maintained appropriate documentation," (Report, 3:11) Mr. Ouellet testified that the involvement of Canada Post in the *Maurice Richard* series fell under marketing, not sponsorship, and, therefore, Canada Post's sponsorship policy did not apply. He testified that although he recommended that Canada Post be involved in the project, he did not have decision-making authority and it was "the Vice-President of Marketing and Sales [Mr. Alain Guilbert] who authorized the contract, which was approved by the then-president [Mr. Georges Clermont]."

Mr. LeFrançois, on the other hand, accepted that VIA's contract with L'Information essentielle "... was not signed when it should have been signed in accordance with corporate policy." However, he claimed to be unaware at the time that the contract went unsigned, and added that when he found out, he refused to cover-up the problem:

As chairman of the board, I took it for granted that the rules, which are clear and precise at VIA Rail, would be followed and that there would be a signed contract. When I saw that the contract had not been signed in that case, I found a draft contract at the office. I believe that was in May 2002 or something like that. I refused to sign the contract because I normally don't sign contracts retroactively. I simply told my staff: "The project is over. Why would I sign the contract? To put it on



file?” That’s not the way I manage a business. If you don’t have a signed contract, you didn’t sign it, and that’s all.

Further, Mr. LeFrançois disagreed with the Auditor General as to the severity of the matter, stating that a verbal contract is a valid contract in Canada, and that:

We put in writing that we apologize for that [i.e., not having a signed contract] and we admitted our fault. But I was not going to kill the person in the administration who lost the contract somewhere.

The Auditor General also raised concerns about suspicious invoicing on the *Maurice Richard* series involving VIA Rail. In her report, she notes that L’Information essentielle sent VIA two identical invoices on the same day in the amount of \$130,000, both of which were paid along with another for \$650,000 (representing the total \$910,00 that was paid). Moreover, she stated that a fictitious invoice was issued by VIA to Lafleur for funds that the CCSB had transferred through the communication agency, rather than sending the cheque straight to VIA Rail. Mr. LeFrançois contradicted the Auditor General’s finding, claiming that:

VIA Rail did not issue any invoice which was fictitious. The actual invoice issued by VIA Rail. ... It is real and accurate. ... VIA Rail did not participate in any imaginary, unreal, counterfeit or not genuine transactions and did not deliver any fictitious documents. ... All of the documents produced reflect transactions initiated by the Department of Public Works, are fully transparent and show proper accounting and stewardship of assets.

Mr. LeFrançois, however, was unable to provide an adequate explanation of the method by which this money was transferred to VIA Rail from CCSB through Lafleur.

In response to the Auditor General’s finding that VIA had advanced funds to L’Information essentielle for the *Maurice Richard* series “... on CCSB’s behalf without a contract or other legal obligation to do so,” Mr. LeFrançois claimed that the project was a good one, whether VIA Rail ended up receiving the money from the CCSB or not:

We had the money. I didn’t need to wait to receive the cheque from Public Works Canada. We didn’t need cash. The decision to proceed was made by the marketing department. If you read my affidavit carefully, you’ll see that I had sought assurances from the vice-president of marketing that, in the event the \$750,000 was not reimbursed to us by the Government of Canada, she nevertheless wanted to proceed with the transaction. ... So the marketing department decided to go ahead with the project, and we had the necessary money.

When the Committee asked Mr. LeFrançois why, if the *Maurice Richard* was a good project, he rejected it initially, he testified that his initial decision was not, in fact,

[r]eally a rejection. ... When Robert Guy Scully came to present the project to me, we obviously talked about the *Maurice Richard* series. Since everyone knows this

great Canadian, we didn't need to talk about it for very long. We knew that it would be a truly interesting project for all Canadians. When he came to see me in October or November 1998, I told Mr. Scully that his project was extremely interesting, but that we had already approved VIA Rail's budgets for the following year, that is to say 1999. So I told him that his project was excellent, but that I wouldn't submit it to the marketing department because its budget estimates had already been prepared and there was already an established plan.

Finally, Mr. LeFrançois argued that representing the \$910,000 as an account receivable in VIA Rail's financial statements — another concern raised by the Committee since only \$750,000 was expected to come from CCSB — was an error of communication between him and the accounting department:

... It was written that expenses of \$910,000 had been paid in advance. However, it was written in the footnote to the financial statements that an amount of \$910,000 was receivable from an agency of the Government of Canada, whereas the figure should have been \$750,000. That was an error of interpretation made when the information was exchanged.

Moreover, he told the Committee that this was nothing more than an insignificant accounting error:

... When I saw it was \$910,000, I said no, the government would reimburse only \$750,000. But at the end of the day, when you look at the financial statements, this is not material.

## **2. Stamping the Future Contest**

The Auditor General also raised questions in her report relating to the involvement of sponsorship funds and Canada Post in the Stamping the Future contest, that Canada Post participated in with the U.S. postal service and over 30 other countries. When he appeared before the Committee, Mr. Ouellet defended the use of funds that he argued Canada Post thought came from the Government of Canada's Millennium Partnership program:

We received \$521,739 from the federal government. All of this money was well spent on the delivery of this worthwhile project. ... Lafleur Communications worked hard for the money they were paid by Canada Post. Their mandate included developing and overseeing the production, printing and distribution of the bilingual contest promotional materials to schools and post offices; obtaining mailing lists of all grade-one to grade-five schools in Canada; developing lesson plans for use by teachers; organizing the press conference to announce the launch of the program; assisting with the management of the gala dinner, award ceremonies and announcement of winners; and, obtaining necessary licences to conduct a contest on certain provinces. The firm's work on the project was tightly managed by our director of stamp marketing, who consistently ensured that the work was on budget, or remained under budget. In other words, we had a highly professional business arrangement that managed to achieve the result.

Further, he sought to absolve Canada Post of any wrongdoing relating to commissions paid to Lafleur:

Yes, Lafleur got a commission, but we didn't pay the commission. The commission was paid by the government. We got only the money that I told you we received, \$521,000, and we used that money to pay for all of the activities surrounding that project.

Mr. Ouellet testified that the Auditor General's report was not accurate regarding the amount paid by Canada Post to Lafleur:

You say, Canada Post turned around and paid Lafleur \$516 thousand... It's not true. We paid Lafleur for work done over a period of time. There's been documentation justifying all of their bills and Lafleur was paid by us only after work done for which they there were proper justifications. ... You're saying that Lafleur on top of the money that he got from the government — for which ... Canada Post had nothing to do, this was a payment made by the government — you said that on top of that Lafleur got also commissions or fees for work done ... this is not accurate. I know that there's a paragraph in the auditor's report that says one of Lafleur's invoices paid by Canada Post shows a commission to the agency of 17.16%, which CPC informs us was for finding a partner for an ad placement fees. We reviewed this. In fact, we didn't pay Lafleur.

He explained that Canada Post was only following directions when it received the government funding through Lafleur:

We realized it [that the money from CCSB was going through Lafleur] when we saw the document that said here's how the money will be paid. You send the bill to such agencies. They will sign the contract, and they will retain a percentage, and you will get your money. ... Our people, running that project, realized it because before they sent the bill they had to know how to do it, and to whom to send the bill, and we did it in good faith. ... I accept that it does not look good, and especially the way the Auditor General presented it does not look good, but let me tell you that the people at Canada Post who handled that file were quite sure that they were doing the thing correctly, and they made sure that the agency that worked with them on this project was paid only for work done.

Mr. Ouellet also countered the Auditor General's concerns that her office could not find a business plan in Canada Post's records:

To think that we would have a study, an analysis of this is not to know how we choose stamp projects in Canada. ... I could supply you the minutes of the stamp advisory committee who discussed this and thought that it was a good project and decided to approve it. ... I am telling you that three-quarters of the stamps that we approve every year do not have that type of thing because this is not the purpose of the stamp committee and it's not the purpose of Canada Post. If you would have to justify these type of things, you would have only a few stamps produced every year.

As with the *Maurice Richard* series, Mr. Ouellet again contradicted the Auditor General's claim that Canada Post should have followed the Corporation's own sponsorship policy:

We explained to the people working for the Auditor General that this was not a sponsorship program; this was a stamp program that we have every year a series of stamp issues and this was part of our stamp program. It was not a sponsorship program in any way, shape or form.

## THE ROYAL CANADIAN MOUNTED POLICE

Commissioner Giuliano Zaccardelli informed the Committee that he had read the Auditor General's report and agreed with the content and her recommendations as they relate to the Royal Canadian Mounted Police. He admitted that the RCMP had applied for sponsorship funding, telling the Committee that:

[w]hen we applied [for sponsorship money], we applied as an agency of government to another agency and those were the rules that we were led to believe were in existence at the time. That's how we got our money. We applied and we received the money. Every cent that we had was spent on events related to enhancing the image of the RCMP and to promote the wordmark of Canada.

The process of obtaining sponsorship funding involved contacts between the Commander of the RCMP's C Division responsible for Québec, Deputy Commissioner Odilon Emond and Mr. Guité of the CCSB. The RCMP was aware, at the time, that Lafleur Communication Marketing and Gosselin were acting as intermediaries between the CCSB and itself on Mr. Guité's recommendation when it came to the Sponsorship Program. The Commissioner testified that Lafleur and Gosselin "worked with [the RCMP], spent a lot of time with us, and were helpful in giving advice."

Commissioner Zaccardelli explained that production work done by the communications agencies involved "[g]etting posters produced, getting media time, ..., and certain other products that [the RCMP] would use at certain events." Asked how payment for these costs was initiated, the Commissioner answered that the RCMP "would receive the invoices and then ... would verify that we got those goods and ... we would send it back to the agency to look after." When he was asked earlier if the RCMP had ever checked to see that the \$1,081,910 paid for production costs was actually spent for those purposes, Commissioner Zaccardelli replied that "to the best of our knowledge it was." He then added that:

[w]hile we requested certain things, the agreements were between Public Works, not us, and these advertising agencies. ... We required certain things, but the agreements weren't between us and the agencies; they were between the agencies and Public Works, and they would provide the materials we needed. There are a couple of cases where, again, the commanding officer in C division saw certain figures and questioned the costs or the commission that was being taken by the

agencies. He raised those matters, but we had no dealings regarding them. That was between the agency and the government department.

Nevertheless, Commissioner Zaccardelli was adamant that the RCMP had received good value-for-money for Canadian taxpayers through its use of the sponsorship funds. He asserted that:

[w]ith the \$1.6 million or \$1.7 million that we received, we put on over 700 events throughout Canada. A lot of those events would not have taken place. Therefore the RCMP would not have been promoted, and also the wordmark would not have been promoted. We would not have been able to put on those events without assistance from the sponsorship funds ... we would not have been able to hold those events which demonstrated what we were doing, connecting with the communities and demonstrating the Canadian wordmark.

But the RCMP did not do a thorough analysis of the events afterwards. Asked if a post-mortem had been done, the Commissioner answered that:

[i]n hindsight, and the Auditor General has highlighted this, we probably could have done a better job of that. We didn't do as good a job of looking at whether we got maximum value, whether we could have done things better. There was some examination, but it was lacking in depth.

According to Mr. Zaccardelli, when concerns were raised about the RCMP's management of sponsorship funds — one year prior to the Auditor General's audit — the RCMP initiated an internal audit as well as administrative reviews. These reviews brought to light "a number of administrative errors" in response to which the RCMP took "immediate and appropriate corrective measures" that were put in place "in the spirit of continuous improvement." The RCMP:

[i]mplemented controls to ensure that policies, procedures, and regulations are clearly understood, monitored, and enforced within the RCMP. Sponsorship guidelines have been developed and were made available to all managers and staff in January 2003. Internal audits are conducted on an ongoing basis ... to ensure that all policies, procedures, and regulations are strictly adhered to ...

Commissioner Zaccardelli told the Committee that he "personally was not involved in any case related to [the Sponsorship] program." When asked if what he had seen bothered him, he replied: "I wasn't there at the time."

## 1. The RCMP 125th Anniversary

The Auditor General noted a number of irregularities with regard to the RCMP's 125th Anniversary activities. These included high commissions paid to communication firms, possible double billing, a lack of documentation, the RCMP bank account set up to hold sponsorship monies, and the use of sponsorship funds for normal RCMP operating expenditures (to purchase horses).

With regard to possible double billing, Commissioner Zaccardelli testified that the RCMP is aware of the concerns about double billing that the Auditor General raised; but he could not go into detail because those concerns are the subject of a criminal investigation.

The Auditor General also noted that there was a serious lack of documentation on many of the sponsorships involving the RCMP. Mr. Zaccardelli told the Committee that errors were made and that, in the future, if a similar situation were to arise, things would be done differently:

We got \$200,000 first, it was given to us. And then we realized that we should have an agreement. Then there was an agreement signed for \$800,000. That was in headquarters. But in Quebec, that \$500,000-\$600,000 never became the subject of an agreement. And that's an error. I mean in hindsight, if we had another situation, I guarantee you it would never be done this way. That's one of the major lessons learned.

Questions were also raised by the Auditor General about a non-government bank account that was set up for all deposits and payments to the RCMP's Quebec Division, in contravention of the *Financial Administration Act*. All transactions for the Division were recorded in a manual accounting system instead of the RCMP's corporate system and the Auditor General was unable to verify some of the transactions from the account because some of the supporting documents had been destroyed.<sup>33</sup>

Commissioner Zaccardelli told the Committee that he could not recall who decided to establish the bank account. He acknowledged that setting up the account in the way that it had been was a "mistake," but that it was made with good intentions. He assured the Committee that:

[t]here was absolutely no attempt to defraud or to misuse. And even that bank account, because I know the people and they feel bad, but they were trying to be holier than the Pope, ..., by separating those monies. That's how much they cared about making sure that there was no crossing over.

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<sup>33</sup> Auditor General of Canada, *Report of the Auditor General of Canada*, November 2003, Chapter 3, p. 19.

The Commissioner also insisted that the “mistake was in setting up this bank account in the first place,” but went on to state that:

[a]ccording to the rules, two officers must sign off on cheques. They complied with that rule, but the initial mistake made was setting up this bank account, in violation of Treasury Board and RCMP guidelines. The account was subsequently managed properly, but its purpose, to separate the funds to ensure that ...

With regard to the destruction of some supporting documents, the Commissioner explained that RCMP regulations call for documents related to sponsorship issues to be kept for two years whereas financial records must be kept for seven. He testified that the documents in question “were destroyed because employees believed they were sponsorship papers, not financial records.” Commissioner Zaccardelli stated that he could not answer for the employees who had made these mistakes — some of whom have since retired — and did not provide an answer when asked if they had been sanctioned or taken to task.

In her report, the Auditor General indicated that the RCMP had used sponsorship money to purchase horses, a purchase that instead should have been made out of operating funds. In response to these concerns, Mr. Zaccardelli told the Committee that the RCMP did, in fact, buy the horses with sponsorship monies, but that “[n]obody told us to bend the rules ... a senior officer in Ottawa inquired and he was told verbally [by Mr. Guité], ‘Go ahead and do it.’” The Commissioner that the individual involved has now retired. Commissioner Zaccardelli maintained that the horses were:

used throughout the Province of Quebec and other parts of Canada to, again, promote the RCMP and to promote the wordmark and to promote Canada so they were used as per the sponsorship said we would do.

## **THE COMMUNICATIONS AGENCIES**

The Auditor General, in accordance with her legislative mandate, restricted her audit to the actions of government entities. The Committee sought, nevertheless, to obtain the views of the communications agencies that had been involved with the Sponsorship Program in order to deepen its understanding of the relationship that existed between them and the Communications Co-ordination Services Branch at PWGSC. Consequently, the Committee heard from three witnesses associated with agencies mentioned in the Auditor General’s report and one witness, Mr. John Hayter, Chairman and CEO of Vickers & Benson, which was not mentioned. Mr. Hayter appeared as an individual and not as a representative of his agency.

## **THE RELATIONSHIP BETWEEN THE MINISTER AND THE COMMUNICATIONS AGENCIES**

The former Minister of Public Works and Government Services who held office while the Sponsorship Program was operative, the Hon. Alfonso Gagliano, admitted that he knew some but not all of the heads of the communications agencies involved in the Program, and agreed that he had met with them — but never on a regular basis. These occasional meetings, according to the former Minister, never involved a discussion of funding. He testified that he was unaware that the agencies were receiving “such large sums of money to transfer cheques.”

Mr. Claude Boulay, former Vice-president and principal shareholder of communications agency Groupe Everest, indicated that he knew Mr. Gagliano, but denied ever discussing the Sponsorship Program with him. He added that Mr. Gagliano “was not the person managing the Program,” which “was managed by officials.” Mr. Boulay testified that he had no knowledge of instances in which the former Minister, his office, or the Prime Minister’s Office (PMO) had intervened to influence the selection of sponsored events. He later insisted that the people with whom he had worked were departmental officials because it was “at that level that decisions were made and it was those people who in fact managed the overall program.”

## **THE RELATIONSHIP BETWEEN THE CCSB AND COMMUNICATIONS AGENCIES**

As indicated above, witnesses associated with the communications agencies — with the exception of Mr. Bernard Michaud who had been comptroller at Groupaction — readily agreed that they had had frequent contact with CCSB and Mr. Guité in particular to discuss their role in the Sponsorship Program. They rejected the suggestion, however, that there had been anything improper in their dealings with CCSB or its director. Mr. Boulay testified that neither his nor the other agencies were involved in the selection of sponsored events and Mr. Boulay, and Mr. Gilles-André Gosselin (Founding President and President/CEO of Gosselin et Associés Communications Stratégiques Incorporée, 1992-1998) both denied giving gifts or favours to Mr. Guité or his staff.

Perhaps not surprisingly, witnesses connected with the communications rejected suggestions that they had failed to fulfil their obligations with respect to the Sponsorship Program in any way. None claimed any knowledge of the use of verbal, as opposed to written, contracts.

One aspect of the relationship between agencies and the CCSB was particularly troubling. In 1998, Mr. Gosselin hired Mr. Mario Parent to work for his agency. Mr. Parent had recently been the Co-ordinator of the Advertising Program at CCSB under the Director, Mr. Guité. Mr. Parent had been involved in the series of events that led to the sidelining of Mr. Allan Cutler. (see above) According to a newspaper account, Mr. Parent had approved



an increase in Mr. Gosselin's hourly rate by more than 50% — from \$135 an hour to \$205 an hour.<sup>34</sup>

Mr. Gosselin told the Committee that he had known Mr. Parent for some time on a professional basis and admitted that he had discussed his agency's rate structure with Mr. Guité,—but insisted that Mr. Parent was not involved. He furthermore denied that any collusion was involved in the decision to increase the rates to bring them “more in line” with the industry standard. Mr. Gosselin said that he could not confirm — nor did he deny — reports that he had invoiced the government for 3,673 hours in a single year, amounting to 10 hours per day and fees of \$625,325 — adding only that he had worked very hard that year and was hospitalized as a result. The Committee offers no comment on this testimony but assumes that the issues it raised will be thoroughly investigated and appropriate action taken.

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<sup>34</sup> *Globe and Mail*, “Ad Firm Billed Ottawa to Surf Gun Sites,” Toronto, 7 December 2002, p. A1.



## **PART III — SENIOR GOVERNMENT OFFICIALS**

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### **THE ACTIONS OF THE DEPUTY MINISTER OF PUBLIC WORKS AND GOVERNMENT SERVICES CANADA**

One of the Committee's principal objectives was to determine whether the actions of the Deputy Minister were appropriate in light of the circumstances.

There was one deputy minister of Public Works and Government Services Canada throughout the entire period during which the events described in various audits and in this report took place: Mr. Ranald Quail. Mr. Quail was the Deputy Minister at the time that the Department was created in 1993 and left in April 2001.

Mr. Quail indicated that he had signed off on the submission to Treasury Board requesting funding for the sponsorship initiative in November 1996. As Deputy Minister, Mr. Quail held the responsibility, with his minister, for determining the internal structure of the Department and presided over any reorganization that occurred. Accordingly, Mr. Quail would have been engaged in the merging of the Advertising and Public Opinion Research Sector into the Communications Coordination Services Branch in November 1997. However, Mr. Quail later told the Committee that he was not part of the decision to implement the Sponsorship Program through CCSB, which he described as political in nature.

Ms. O'Hara told the Committee that "deputy heads [i.e., deputy ministers] are delegated organizational authority up to the EX-3 level." Thus, when Mr. Guité became a director general in 1995 and was reclassified from an EX-1 to an acting EX-2, Mr. Quail's authorization would have been necessary. This would have applied as well when Mr. Guité became an EX-3, a reclassification that took place when the CCSB was established with Mr. Guité at its head. Throughout these changes, Mr. Guité reported directly to two successive assistant deputy ministers

The allocation of additional funding to APORS for the purposes of the sponsorship initiative under Mr. Guité, the creation of the CCSB and Mr. Guité's instalment as its head and advancement in classification all took place after the 1996 Ernst and Young audit. Mr. Steinberg testified that it would have been the responsibility of the appropriate assistant deputy minister to see that any corrective actions recommended by the internal audit were implemented. Nevertheless, according to his own testimony cited above, Mr. Quail did not consider the results of the 1996 audit at any point during these events. However, Mr. Steinberg testified that "as a result of [a] decision that Mr. Quail took in 1997, [the audit branch] had an accord which said that Mr. Guité's directorate would be subject to the audit process." Mr. Quail testified that he "worked on the basis of trust" and did not feel that there was any need to conduct an internal audit of the CCSB prior to 2000.

In April 1998, Mr. Guité's position was reclassified to an EX-4 and he became an assistant deputy minister with a direct reporting relationship to the Deputy Minister, Mr. Quail. According to Mr. Quail's testimony cited above, this change was initiated by Mr. Guité who spoke to the Minister (the Hon. Alfonso Gagliano) who in turn raised the matter with Mr. Quail. At no time did Mr. Quail ever object, in writing, to any of the reclassifications of Mr. Guité's position or the assignment of additional responsibilities to him. Once Mr. Guité had been made an assistant deputy minister, Mr. Quail instructed him to speak to the head of the Internal Audit, Mr. Steinberg, but could not recall if he had followed up to see if his request had been obeyed.

In 2000, Mr. Quail initiated the internal audit of the sponsorship files managed by Mr. Guité and the CCSB. Prior to launching the internal audit, Mr. Quail informed Minister Gagliano and Privy Council who "were in agreement that we should go ahead." As he noted, this audit was conducted after Mr. Guité had been reclassified as an EX-4. Following completion of the audit, Mr. Quail (with his Minister's involvement) suspended sponsorships in order to allow time for the implementation of the action plan.

Mr. Steinberg defended the actions of Mr. Quail. He testified that in the early 1990s, while the audit functions in most government departments was being reduced, Mr. Quail "did the opposite" by ensuring that the Department maintained a strong internal audit function. Mr. Steinberg asserted that following the 2000 internal audit, Mr. Quail, in his view, "took the responsible action and ensured that there was an action plan in place that people were going to follow."

Mr. Quail had a direct involvement with the Sponsorship Program. He testified that he:

[c]ertainly got involved, ..., in the preparation of the submissions, the listing of the events, the amount of money that was required in totality, and where we could find it to make it happen.

Lastly, and as previously noted, while the sponsorship initiative was underway for approximately one year and when Mr. Guité became an EX-4, the Executive Director had a formal, direct reporting relationship with Mr. Quail. These facts, however, are not out of keeping with normal relationships and levels of involvement by a deputy minister and are not suggestive of any impropriety on Mr. Quail's part. They do demonstrate, however, that at least on the surface Mr. Quail maintained an active interest in the CCSB and the Sponsorship Program and ought to have known what was going on.

Mr. Quail was asked what recourse was available to a deputy minister who wanted to signal concerns about activities or individuals with his or her department. Mr. Quail answered in hypothetical terms:

It is a difficult situation, that interface between ministers and deputy ministers. In this particular case, you'd give your advice to the Minister and if the Minister decided he wished to proceed, you would proceed. ... If you felt there were issues outside of you and the Minister and the department, ... you could talk to the Clerk [of the Privy Council], if you wanted to.

However, during his second appearance before the Committee, when he was asked if he had ever brought concerns about the mismanagement of the program to the Deputy Clerk of Privy Council Office (whom he worked with), Mr. Quail said that he “didn’t discuss it because [he] didn’t have any indications of mismanagement.”

## **THE DEPUTY MINISTER’S RELATIONSHIP WITH THE MINISTER**

As part of his normal functions and responsibilities, Mr. Quail had a direct reporting relationship with his minister. The Hon. Alfonso Gagliano testified that he — like the Hon. Diane Marleau before him — had a good relationship with Mr. Quail and that they would meet regularly, “two, three times a week.” Based on his testimony, cited above, Mr. Quail was responsive to requests put to him by his minister.

Mr. Quail was aware that there was a very direct relationship between Mr. Guité and Minister Gagliano. This relationship was not captured by any departmental organizational chart and, in fact, does not represent the reporting relationship that is normally found between any department and a minister. These relationships are strictly hierarchical and commonly an assistant deputy minister (Mr. Guité) would only report to the Minister through the Deputy Minister or in the Deputy Minister’s presence. (See former Minister Marleau’s testimony, cited below.)

Mr. Quail testified that this arrangement was an awkward one for him. He told the Committee that it was:

[a] very difficult situation for a deputy in terms of the fact that you’re working with the minister. On one hand, you can say, “Well, Minister, you can’t talk to that particular group. You have to come through me every time you want to talk to it.” I did not do that. I did not do that. The Minister wanted to have these discussions. He wanted to be involved. He had a responsibility. He had signed the submissions. He had direct approval to proceed and get this done.

At his second appearance before the Committee, Mr. Quail testified that Privy Council was “aware of the fact that Mr. Guité met with Mr. Pelletier; they were aware that they met with my minister, particularly Alfonso Gagliano.” Mr. Quail said that although he was not annoyed that these meetings took place, his “pride could be a bit hurt” when decisions were made regarding which events to sponsor. Mr. Quail added, however, that these sorts of meetings were part of Mr. Guité’s job description:

The job description ... talked about the responsibility of the individual in those positions to be able to and had a responsibility to have conversations, have liaison, work in relationship with PCO, with PMO, with Treasury Board, because those are all people that have issues dealing with communications.

Asked if he had ever asked for letters of direction from the Minister seeking clarity as to actions that he should be taking if he perhaps were uncomfortable with something and wanted the direction put in writing, Mr. Quail replied: "No. I had no letters of direction."

The Committee has determined, on the basis of the evidence presented to it, that there was a failure with respect to deputy ministerial responsibility in the case of the Sponsorship Program, and that corrective action needs to be taken. The Committee has undertaken a review of ministerial and deputy ministerial responsibility and will present its views when it reports its findings.

## **THE ACTIONS OF THE MINISTERS OF PUBLIC WORKS AND GOVERNMENT SERVICES CANADA**

During the period under review, Public Works and Government Services had five ministers.<sup>35</sup> As indicated above, the Committee was told that the removal of the procurement process from APORS that was recommended by Ernst and Young did not happen because the Minister at the time, the Hon. Alfonso Gagliano, opposed this change. In earlier testimony from Mr. Cutler (see above) the Committee was told that Mr. Guité, then in charge of APORS, dispensed with the rules governing contracting for advertising with the approval of the Minister.

The Committee has also learned that the Sponsorship Program started as an initiative that was funded on the approval of Mr. Dingwall's successor, the Hon. Diane Marleau.

Ms. Marleau told the Committee that she had made it clear to departmental officials that while she was Minister "all protocols and rules to control expenditure and ensure transparency would be followed." According to Ms. Marleau's testimony, the unusual reporting relationship that existed between Mr. Guité and the Minister must have predated her tenure as minister. Ms. Marleau told the Committee that when she first became Minister:

[a] gentleman showed up in my offices and said, "By the way, I report here." That gentleman, ..., was Mr. Guité. I said, "No, a director ... does not report directly to a Minister."

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<sup>35</sup> The Hon. David Dingwall (November 1993-January 1996); the Hon. Diane Marleau (January 1996-June 1997), the Hon. Alfonso Gagliano (June 1997-January 2002), the Hon. Don Boudria (January 2002-May 2002), and the Hon. Ralph Goodale (May 2002-December 2003).

Instead, she testified that she “did not deal directly with people from that shop [APORS]. I insisted that these people report through proper channels, through the Deputy Minister’s Office.” She indicated that a direct reporting relationship with the Minister would have removed many of the checks and balances in place.

This version of events was not confirmed by Mr. Guité, when he appeared before the Committee on 22 April 2004, although it was not explicitly denied. He did not recall the conversation Ms. Marleau described. He indicated that his contact with her had been very limited: “I met with Mme. Marleau, during the whole time she was there, perhaps twice.” It was during this period that he began to meet, at his request, with Jean Pelletier in the Prime Minister’s Office (meetings which occurred on average every other month, according to Mr. Pelletier). According to Mr. Guité: “When Mme Marleau came on staff or became minister, the message I got was, deal with PMO.”

The reporting relationship between Mr. Guité and the Minister that had developed under Minister Dingwall was restored under the minister who succeeded Minister Marleau, the Hon. Alfonso Gagliano. Minister Gagliano was the longest serving Minister of Public Works and Government Services during the time of the events under review by the Committee.

Mr. Gagliano became Minister in June 1997, after the sponsorship initiative began and before the CSSB had been established within PWGSC in November 1997 with Mr. Guité as Executive Director. Mr. Gagliano told the Committee that he was not aware of any problems with the Sponsorship Program or with the APORS when he became Minister and had not been told about the 1996 Ernst and Young audit. He also testified that the objective of raising the profile of the federal government in Quebec was established before he became Minister.

The former Minister denied that he had taken an active hand in the day-to-day operations of the CCSB or delivery of the Sponsorship Program. He told the Committee that he:

[d]idn’t know about the micromanagement of the day-to-day management. I was not appointing the agencies. I was not deciding which agencies should get the contract. I didn’t decide which events — we had discussions in terms of the budget and then the civil servants would continue to do their job.

Mr. Gagliano also denied that he had appointed Mr. Guité Assistant Deputy Minister, but instead “signed the Treasury Board submission creating a position called Assistant Deputy Minister for Communication and Coordination. That was the position. The filling of the position was not my responsibility.” Furthermore, he rejected any suggestion that he had instructed Mr. Guité or the CCSB to contravene rules and guidelines. He told the Committee that “moneys were supposed to be spent according to the *Financial Administration Act* and the Treasury Board guidelines. Nobody ever gave instruction to anybody not to do the things that were supposed to be done.”

Mr. Gagliano's testimony in this respect was supported by Mr. Quail, who testified earlier that there was:

[a]n understanding we would not break the rules. He [the Minister] did not think we would break the rules. In my view, he did not think we would break the rules. He didn't say, let's get on with this and break all of the rules.

There were, however, a number of discrepancies between Mr. Gagliano's testimony and testimony given by other witnesses. Mr. Gagliano stated that in 1997, when he first became minister, he reviewed "and followed" the recommendations of the Treasury Board including the "redirection of the procurement process within the Department." Mr. Quail testified that procurement "never went mainstream," that the Minister "wanted CCSB to be the group that was responsible in totality for sponsorship," and that the Minister "wanted the procurement left alone."

Mr. Gagliano told the Committee that he had directed the 2000 internal audit to be done of the management of sponsorships at the CCSB, an assertion that he made several times during his testimony. Mr. Quail, in contrast, told the Committee that he had initiated the audit. This was confirmed by Mr. Steinberg, who was responsible for the Department's internal audit function at the time the audit was performed. Mr. Gagliano told the Committee that he asked the internal auditor "whether [he] should call the police but ... was told that the nature of the problems was administrative, not criminal." Mr. Steinberg testified that he was:

[d]eeply concerned that there were perceptions that these findings [of the 2000 internal audit] had been characterized as administrative in nature. I consider these lapses to be significant and unacceptable. I never used the word "administrative," nor would I, as these were significant material lapses.

Mr. Steinberg also vigorously denied the suggestion that he had been asked by Mr. Gagliano whether the police ought to be called.

Mr. Gagliano insisted throughout his testimony that that he had met with Mr. Guité "maybe three or four times a year." This assertion, however, was contradicted by testimony given by Ms. Tremblay who told the Committee that "[t]he executive directors [Mr. Guité and later Mr. Tremblay] met with the Minister personally in his office once a week on average." Furthermore, Mr. Guité himself testified that he met with Mr. Gagliano "... regularly. ... On the average, I would meet with Mr. Gagliano probably every month." As well, he indicated that he met more frequently with officials in Mr. Gagliano's office, on average once a week.

Mr. Gagliano maintained that his relationship with Mr. Guité involved "strictly ... budget approval." In contrast, Ms. Tremblay testified that "[t]he decision-making process, in terms of sponsorship approval, was up to the Executive Director, Mr. Guité, who in turn received his instructions, in the vast majority of cases, from Minister Gagliano



himself or from his office.” Mr. Guité, she told the Committee, “would come back from that meeting with the minister’s instructions, which we were to follow blindly.” Mr. Guité’s account of the relationship also did not support that provided by Minister Gagliano. He distinguished between political interference (which would have involved pressure to select certain agencies) and political influence (involving input into decisions about individual events that would receive sponsorship funding): “Did they (ministers) have input into the program of who got the sponsorship, which sponsorship we’re going to do? Obviously. I met with them and we went through the programs together.”

## **THE PRIME MINISTER’S OFFICE (PMO) AND THE SPONSORSHIP PROGRAM**

Apart from learning that the Prime Minister signed the Treasury Board proposal that initiated funding for the Sponsorship Program, the Committee also learned that Mr. Pelletier, who was in charge of the PMO acknowledged meeting with Mr. Guité to discuss the Program, he vigorously denied having any involvement in the selection of communications agencies or in awarding of contracts. Mr. Pelletier also denied that he or his office had ever instructed Crown corporations to get involved in sponsorships or that he had ever given any instructions to deputy ministers. He furthermore rejected any suggestions that the PMO had instructed that the rules should be bent.

For his part, Mr. Guité testified that he had approached PMO for more funding for sponsorships. Ms. Isabelle Roy also told the Committee that she was aware that meetings had taken place between Mr. Tremblay, Mr. Guité’s successor, and Mr. Pelletier, but did not know what they had discussed.



## **PART IV — OBSERVATIONS**

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### **INADEQUATE DOCUMENTATION AND QUESTIONABLE VALUES-FOR-MONEY**

A central concern raised in the November 2003 Report of the Auditor General was the pervasive absence of adequate documentation in the administrative files maintained on individual sponsorships, including the absence of evidence that administrators had analyzed the benefits provided by sponsorships against the costs involved. Many of the files examined by the Auditor General contained no evidence that the potential contribution of individual sponsorships to the program objectives had been considered, in the course of decision-making, no assessment of the merit of individual proposals, and no evidence that criteria of merit even existed. The discussion provided in these paragraphs makes the important point that concerns about the adequacy of documentation are not merely concerns about the maintenance of files. The questions they raise are fundamental ones about the adequacy of attention by those responsible for the program to achieving value for the \$250 million of taxpayers' money that was spent.

#### **A. Adequacy of Documentation**

Ms. Tremblay's testimony provided the Committee with insights concerning the tight relation between the management and decision-making style that characterized the Sponsorship Program under Mr. Guité's direction and the quality of records that were maintained. She testified that Mr. Guité made the decisions about which events to sponsor and that very little documentation was available to support those decisions. According to her testimony:

[t]he paper trail was not extensive. Usually orders were given verbally, either by Mr. Guité or by Mr. Tremblay, to ... prepare a requisition, which would eventually generate a sponsorship contract. I was told what the event was, what the amount was, and who the advertising agency managing the event would be. It was rarely in writing.

While she claimed that there were very few irregularities in the contracting procedure, she testified that:

[t]here were no documents to support the invoices especially when it was production costs and hours worked. There was very rarely any backup documents to support the amounts charged.

Ms. Tremblay told the Committee that on the occasions when she raised problems with the executive directors, her concerns were dismissed. For example, Ms. Tremblay became concerned about the lack of supporting documents for invoices that one of the

communications agencies, Groupaction, was submitting regarding sponsorships for outdoor recreation shows.

The agency was submitting bills with no justification for the amounts being charged, either for commissions or the production costs. Ms. Tremblay responded by telephoning Groupaction to ask for supporting documents; the person to whom she spoke indicated that there would be no problem in doing so. However she claimed that, a day or so afterwards, Mr. Guité called her into his office to tell her that he had had a call from the president of Groupaction to tell him that someone in Mr. Guité's office was asking questions about the invoicing. Ms. Tremblay testified that Mr. Guité said, "Listen Huguette, just verify the invoice, pay the bill, and don't ask questions." Asked if she felt that this signified that there had been political interference, she answered in the affirmative, because the instruction "probably came from the Minister's office, because that's where the contacts were taking place."

On another occasion, following Mr. Guité's retirement from the public service (in September 1999), Ms. Tremblay raised concerns with his successor as executive director — Mr. Tremblay — about the contract for the *Maurice Richard* series because it did not contain a required scope of work:

When I questioned him on that saying, you cannot give out a production contract without giving me some kind of scope of work to work with. That has to be put into the contract, especially for that amount of money — his response to me was, Huguette, we have to do it, so just do it.

Ms. Tremblay ensured that there was a contract on file, and that there was sufficient funding available to pay for it. She testified that there was always a contract on file when it came time to issue a payment under the Sponsorship Program. Once a sponsored event had taken place, Mr. Guité and then Mr. Tremblay would verify that the work had been done and would attest to that fact as per section 34 of the *Financial Administration Act*.

In his appearances before the Committee, Mr. Guité strongly rejected the critical observations of the Auditor General concerning the quality of the documentation included in files. However, his description of what was included in the files did not differ significantly from that of Ms. Tremblay, and did not respond directly to the central concerns raised in the Auditor General's report. His response to concerns about the adequacy of documentation, raised repeatedly by Committee members, was to argue that basic billing data had been included consistently, and that this was all that was possible for transactions such as sponsorships. In his words:

What you've got to realize here is that if you're doing a sponsorship, and I don't want to be sarcastic here, but I can not take a copy of the wordmark that's on a building and put it in a file. ... Sponsorship in its definition, what you're doing is you're getting visibility, that's what we were doing with these files. On the files, when I was there, there was a contract, an invoice and there was an affidavit or a document that said the product has been delivered. What more can I put on file?

This argument was supplemented, and partly contradicted, by a second argument put forward by Mr. Guité. He advised the Committee that, when the sponsorship initiative was launched during the referendum period, a meeting that had included Privy Council Office officials decided that minimal information should be retained in files. This was to preclude the use of Access to Information requests by sovereignists to gain access to information about federal plans and strategies. In Mr. Guité's words: "... as I said back in 2002, a good general doesn't give his plans of attack to the opposition." According to this argument, it would have been possible to include complete information, but a decision was made not to do this.

## **B. Value-for-Money**

The concerns of the Auditor General about the value-for-money achieved by the Sponsorship Program were widely publicized in the course of the Committee's work. While there are specific questions relating to the approximately \$100 million that appears to have been spent on fees and commissions, concerns about value-for-money are not limited to this part of the Program's budget. The absence of convincing evidence in the files reviewed by the Auditor General raises the possibility that the entire \$250 million spent on the Program may not have provided public interest benefits sufficient to justify it.

Discussions between Committee members and the three ministers who successively exercised responsibilities for the Program and earlier sponsorship activity provide a useful perspective on the value-for-money question. Ministers Dingwall, Marleau and Gagliano each affirmed the seriousness of the challenges faced by the federal government in the post-1995 referendum environment, and the urgency of the need for higher federal visibility within the province of Quebec. (See above "The Actions of the Ministers of Public Works and Government Services Canada.") Having established objectives and authorized funding for the Program, they remained directly involved to varying degrees, but clearly took the view that it was up to the public servants to manage the program capably. In the words of Minister Gagliano:

The objective of the program was very good. It was, yes, to keep the country united. It was a national unity strategy. ... And if you look at the cabinet documents that you have before you, there is always a mention that those moneys were supposed to be spent according to the *Financial Administration Act* and the Treasury Board guidelines. Nobody ever gave instruction to anybody not to do the things that were supposed to be done.

In its meetings with the public servants responsible for the Program, however, the Committee has seen little evidence of specific attention to the value-for-money challenge in the early stages of the Program. According to Ms. Roy, an employee within the Program:

Initially, to my knowledge, when it was managed by Monsieur Guité, there were no guidelines in place. Decisions were made on a judgment call. These sponsorship guidelines were eventually drafted and used as a tool. There were different elements taken into consideration, but in the end, the decision was made by Mr. Tremblay, and it was a subjective decision.

In fairness, it should be noted that the development of meaningful value-for-money guidelines is an extremely difficult challenge in relation to objectives as inherently open-ended as national unity and federal visibility. However, Mr. Guité's defence of the Program served, if anything, to underline the absence of specific value-for-money criteria that could have been used to distinguish between worthwhile sponsorships and others:

The Government of Canada in all of those projects got value-for-money, and as we often say, the proof is in the pudding. I think one committee member said, why did you do that when you knew there were going to be no more referendums? The reason there will be no more referendums, at least in the coming year, is that the popularity of the separatist movement in Quebec is way down. Why is it way down? The Sponsorship Program.

A number of the individual sponsorships that have come to the attention of the Committee in the course of this inquiry clearly reflect the absence of a value-for-money-based decision framework within the Program. Committee members remain unconvinced that support for Canada Post's participation in the Stamping the Future contest (an international contest involving participation by primary school students) or the purchase of a large screen television by the Old Port of Montreal Corporation could have materially contributed to federal visibility or the decline of support for separatism in Quebec. Lastly, the Committee notes that there was very little hard evidence in the files used by public servants that would have allowed them to make an assessment of value-for-money. As Mr. Monette of the Quick Response Team told the Committee:

There were some cases where it was very difficult to assess [value-for-money] because of the lack of documentation and it was really hard to form a judgement. Then there were cases where it appeared that there was no value because ... there were a huge number of hours billed on something that we could see would not take that long to do.

## **1. The Undermining of Parliamentary Control and Accountability**

The Auditor General's November 2003 report raises a further major concern about the Sponsorship Program. The reports that departments routinely provide to Parliament did not enable Parliament to make informed decisions based on accurate information about the objectives of the Program, or hold the government accountable for results. Furthermore, Parliament's financial control, which is exercised through the annual

estimates process, was circumvented. The practice of using sponsorships to transfer money to various Crown corporations that had been allocated by Parliament to Public Works and Government Services essentially did an end run around the process through which Parliament controls government spending. It also violated specific procedures that are available to departments to transfer money when there is a demonstrable need to do so. These procedures require that proposed transfers are submitted to Treasury Board for approval, in order to ensure that alterations to the spending authorities that have been approved by Parliament are made only for valid reasons, and are themselves reported to Parliament as part of the financial reporting and accountability process.

Concerns about the quality of PWGSC's annual performance reports did not receive extensive attention by the Committee, in part because the observations made by the Auditor General point to broad deficiencies in reporting to Parliament that have been identified by other committees — including this one — over the years. According to the Auditor General, Parliament was not informed of the Sponsorship Program's real (i.e., Quebec-focused) objectives when the Program was created, and the Department's annual performance reports did not mention the Program until 2001, despite the fact that sponsorships accounted for more than half of the CCSB's annual spending. When the Program finally was mentioned, there was no indication that it was substantially focused on Quebec. The Committee has verified that the first reference to sponsorship activities in departmental reports occurs in the 2001 Performance Report, where it is indicated that the CCSB "Supports Government of Canada visibility and presence," and the sum total of information provided about performance consists of one line: "A diversity of 291 sporting, cultural and community events were sponsored across Canada." (PWGSC Departmental Performance Report, 2001-2002) Commenting on the Department's performance reports, Mr. Harder indicated that these reports are primarily the responsibility of the departments that prepare them, although the Treasury Board Secretariat does have a role in monitoring the quality of reporting.

The second Parliament-related concern of the Auditor General is based on the CCSB practice of using sponsorships to funnel money from the appropriations authorized by Parliament for the Department to Crown corporations, via the ad agencies that received the sponsorships. This practice avoided the requirement for Treasury Board approval that would have applied to a submission requesting a transfer of funds, and that would have ensured the reporting of the transfer to Parliament via the supplementary estimates.

The Auditor General's November 2003 Report characterizes this practice as "inappropriate"(3.37) and states that "Senior public servants in the CCSB and some officials of the Crown corporations were knowing and willing participants in these arrangements." (3.44) The RCMP would appear to be implicated in this statement, because the RCMP is among the organizations mentioned in a second comment that claims that "the parliamentary process was bypassed ..." when funds were transferred to Crown corporations and the RCMP, and used for operational purposes. (3.100) The report

indicates that sponsorship transactions involving the following Crown Corporations (as well as “other federal entities,”) were audited:<sup>36</sup>

- The Business Development Bank of Canada;
- Canada Mortgage and Housing Corporation;
- Canada Post Corporation (a limited audit, resulting in a recommendation that Canada Post carry out a wider internal audit);
- The Canadian Tourism Commission;
- The Old Port of Montreal Corporation Inc. and
- Via Rail Canada Inc.

The Committee heard witnesses from VIA Rail (Marc LeFrançois, President and CEO) and Canada Post (André Ouellet, President). It also met with Mr. Giuliano Zaccardelli, Commissioner of the Royal Canadian Mounted Police in connection with sponsorship money that was used in connection with 125th Anniversary activities. While the central focus of these meetings was on the value-for-money achieved for Canadians by the sponsorships in which these organizations had participated, some attention was also given to the appropriateness of the use of sponsorships to shift money from PWGSC to Crown corporations and the RCMP. (These issues are discussed in additional detail under the sections dealing with Crown corporations and the RCMP, above )

In his appearance before the Committee, Mr. LeFrançois asserted that VIA Rail had received full value, in terms of corporate visibility, for the sponsorship money that was spent. With respect to the decision to provide sponsorship money to Crown Corporations, he argued that this “broader context” of VIA Rail's use of sponsorship funding had not received critical comments in previous audits, both internal and by the Auditor General. He argued, further, that: “Receiving funds from the Government of Canada in support of the government’s priorities is a common occurrence. The receipt of sponsorship funds directly or indirectly in aid of government policy was in the ordinary course of business.”

Mr. Ouellet, appearing before the Committee on his own behalf, focused on the value-for-money concerns of the Auditor General, affirming that Canada Post had received full value for the sponsorship funding, in terms of corporate objectives — essentially as a marketing venture. The issue of bypassing Parliament was not addressed.

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<sup>36</sup> The Canada Lands Company/Parc Downsview Park Inc., the Royal Canadian Mint, the National Arts Centre Corporation and the National Capital Commission were also audited, but the report indicates that these audits did not identify significant issues.



Mr. Zaccardelli indicated that sponsorship money was used for only one operational expense — the purchase of additional horses for the RCMP musical ride. While he did not address specifically the Auditor General's concern about bypassing Parliament, he did provide the Committee with the following general statement: "I have read the Auditor General's report and I agree with the content and the recommendations as they pertain to the Royal Canadian Mounted Police."

In his appearance before the Committee, Mr. Guité made no effort to deny that sponsorships had been used to provide Crown corporations (and at least one government department) with funds, outside the formal procedure for transferring spending authorities already voted by Parliament. On the contrary, he appears to have viewed the procedure involving Treasury Board authorization merely as an impediment to speedy action, and the use of sponsorships as a practical solution, a measure in which he actually seemed to take some pride. In his words:

In the case of VIA and Post Canada, you cannot — how would I use the words here — I cannot transfer funds from CCSB to Post Canada. To do that I have to go through Treasury Board because that's taking funds from one portfolio, and even worse, to a Crown corporation. So there's quite a system to go in. By using an agency, which I've done to every sponsorship we did, I used the agency to get that money into VIA Rail, but that money didn't go into VIA for their operation, it went in for a sponsor ...

## **2. The Government's Rules**

In her report, the Auditor General indicated that the Sponsorship Program operated in:

a weak control environment: procurement and financial activities were handled within CCSB with little oversight by PWGSC's central services, communications agencies and events to be sponsored were selected by only a few individuals, and the same individuals who approved projects also approved invoices for payment. Roles and responsibilities were not segregated to eliminate, as far as possible, any opportunities for fraud and misstatement or an override of controls by management. (3.22)

Mr. Quail said that when the Department established the CCSB, he wrote to Mr. Guité to let him know that now that he was in charge of a branch, that he "would be subject to the processes and review, contractual quality control, contract settlement, and prod awareness and prevention which reside in the audit group." He said that he had advised Mr. Guité "that he should meet with Norm Steinberg, ..., and go over the governing Treasury Board and Public Works and Government Services Canada policies and directives, and that is what I expected would be done." But Mr. Quail added that he "did not cross-relate the two" (i.e., his decision to ask Guité to speak to Mr. Steinberg was not related to the findings of the 1996 audit). Mr. Quail could not recall whether he had followed up with Mr. Guité to see if he had spoken to Mr. Steinberg as requested.

The testimony given by these witnesses complements and confirms the observations made by the Auditor General as well as those contained in an internal audit conducted by the Department in 2000 (see above).

When asked to explain why the rules were broken, Ms. Tremblay replied that

[i]t was very hard to break rules when none were in place. When it came to sponsorships, there were no rules in place ... things were done, contracts were drafted, invoices were paid and no questions were ever asked. So I come to the conclusion that you can't break a rule if it's not there.

Mr. Judd, however, had a somewhat different interpretation, telling the Committee that "it wasn't because of a lack of rules being in place. There were rules. There were systems and there were processes, but they were subverted." In a similar vein, Mr. Marshall commented that:

[n]o system is foolproof. As the Auditor General has pointed out, controls and procedures did exist at the time these activities were taking place that would have ensured good administration had they been followed. Yet in the case of sponsorship they were not followed, and a few individuals who were put in positions of power took advantage of that.

When he was asked why things had gone wrong, Mr. Steinberg seemed to recall that the 2000 internal audit made reference to:

[h]ow subjective the decisions ultimately were and about how much "discretion" the executive director ultimately had ... even though there were "preliminary guidelines" and [CCSB] tried to use those preliminary guidelines, ... the executive director waived them off and took a capricious decision to award sponsorships that his own advisers told him he probably shouldn't do. ... There were rules and regulations. There was simply a choice made by a group of individuals to put the rules aside and to do as they saw fit.

In 2002, Mr. Guité told the Auditor General during her audit of three contracts issued to Groupaction, with regard to absence of documentation on the files, that "this was how business was done while he was responsible for the [sponsorship] program."<sup>37</sup> Testifying before the Committee, Mr. Guité insisted: "I haven't broke [sic] any rule in the book."

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<sup>37</sup> Office of the Auditor General of Canada, 8 May 2002, paragraph 30.

## PART V — RECOMMENDATIONS

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Efforts were made by some witnesses to discredit or refute certain elements of the Auditor General's report. These efforts were generally self-serving and wholly unconvincing. From past experience, the Committee is quite familiar with the audit methodology employed by the Office of the Auditor General and the vetting process the Office follows to confirm the findings that methodology produces. This process is painstaking and thorough. Those who are subject of an audit have ample opportunity to correct misinterpretations and errors of fact. They are also given an opportunity, should they remain at odds with the Auditor General regarding her observations, to say so at the end of audit chapters. The Committee notes that no such objections appear at the end of any of the chapters on the Sponsorship Program that it has reviewed.

The overwhelming weight of the evidence presented to the Committee has consistently confirmed and strengthened the observations and conclusions made by the Auditor General in her report. Thus the summary of audit findings found in the opening paragraphs of the report rest on a solid foundation of empirical evidence and remain as accurate and credible now as when first written. The Auditor General wrote in those paragraphs that her Office:

found that the federal government ran the Sponsorship Program in a way that showed little regard for Parliament, the *Financial Administration Act*, contracting rules and regulations, transparency, and value for money. These arrangements — involving multiple transactions with multiple companies, artificial invoices and contracts, or no written contracts at all — appear to have been designed to pay commissions to communications agencies while hiding the source of funding and the true substance of the transactions.

We found widespread non-compliance with contracting rules in the management of the federal government's Sponsorship Program, at every stage of the process. Rules for selecting communications agencies, managing contracts, and measuring and reporting results were broken or ignored. These violations were neither detected, prevented, nor reported for over four years because of the almost total collapse of oversight mechanisms and essential controls. During that period, the program consumed \$250 million of taxpayers' money, over \$100 million of it going to communications agencies as fees and commissions.

Public servants also broke the rules in selecting communications agencies for the government's advertising activities. Most agencies were selected in a manner that did not meet the requirements of the government's contracting policy. In some cases, we could find no evidence that a selection process was conducted at all.<sup>38</sup>

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<sup>38</sup> Office of the Auditor General of Canada, *Report of the Auditor General of Canada to the House of Commons*, November 2003, Overall Main Points, chapters 3, 4, and 5, paragraphs 1, 2, and 3.

In addition to finding that the facts surrounding the Sponsorship Program, as presented by the Auditor General, are beyond dispute, the Committee endorses her recommendations without reservation. It has noted the Government's acceptance of those recommendations and is aware of several actions taken to realize them. Nonetheless, to provide the Committee, Parliament, and the people of Canada with the assurance that those recommendations will be implemented fully and in a timely manner, the Committee recommends:

## **RECOMMENDATION 1**

**That the government provide the Committee with an action plan that includes target implementation and completion dates for the components of the Auditor General's recommendation.**

No other issue in recent history has angered Canadians to the extent that the scandal surrounding the Sponsorship Program has. It has sometimes been said in its defence that the Program served and achieved a good purpose: the preservation of Canadian unity. This argument implies an ends-justifies-the-means rationale which suggests that any mismanagement, regardless of how reckless, costly, and damaging, should be overlooked because the ultimate objective was attained. Yet regardless of whether the Program achieved its objectives (an assertion that remains without an empirical foundation), it would not have justified the cavalier fashion in which rules were broken and tax dollars squandered — those are the real reasons why Canadians are angry and their respect for governing institutions jeopardized.

Canadians need, therefore, to know conclusively that the opportunities that were exploited to produce the scandal have been closed. They need concrete assurance that the actions that produced this scandal will never be repeated. Accordingly, they and their Parliament must be kept regularly informed of the progress being made toward full implementation of the Auditor General's recommendations. The Committee therefore recommends:

## **RECOMMENDATION 2**

**That the government provide an annual report to the House of Commons on progress being made in implementing the action plan until it is completed.**

## **FINANCIAL MANAGEMENT AND CONTROL**

The Committee learned from its witnesses that government rules, regulations, and procedures surrounding contracting and financial management are for the most part sound.

Nevertheless, it was also brought to the Committee's attention that there are a number of areas in which greater precision is required.

Mr. Guité testified that when he was in charge of the CCSB, he signed invoices for services provided by communications agencies doing work related to the Sponsorship Program. He then sent the invoices he had certified to the financial services unit in PWGSC for payment. The unit would verify that Mr. Guité had the necessary authority to authorize payment in the amounts listed on the invoices before issuing a cheque. There was no evidence that the financial service unit had done anything more than this before making payment.

Various audits and reviews have all shown that there was little or no documentation on the CCSB's files — despite Mr. Guité's protestations to the contrary — to demonstrate that the communications agencies had actually done the work that the government paid for. In terms of issuing payment, all that was needed was Mr. Guité's certification that the agencies had indeed performed the services they were contracted to do. It is now abundantly clear that these assurances were not based on available evidence that was kept on file. Had that evidence been required by a departmental unit outside the CCSB, there is a distinct possibility that the excesses associated with the Sponsorship Program would have been at the very least minimized. The Committee strongly believes, therefore, that a final verification by financial services units based on tangible proof is needed before payment is made, and accordingly recommends:

### **RECOMMENDATION 3**

**That financial services units in departments and agencies review supporting documentation, as per recommendation 19 below, to ensure that it is correct before issuing payments for contracts.**

The mishandling of the Sponsorship Program shows that financial services units must do more than make sure that the required documentation and certification accompanies invoices sent to them for payment; they should also, from time-to-time, contact the contracting authority to discuss the basis upon which payments are being issued. This should be the rule particularly when large sums of money and intense contracting activity are involved, or where past internal audits have signaled problems with the contracting authority involved. The Committee therefore recommends:

### **RECOMMENDATION 4**

**That financial services units in departments and agencies challenge requests for contract payment on both a random and a risk basis.**

## RECOMMENDATION 5

**That all programs and activities involving contracts, grants and contributions, and transfers to other departments or agencies be subject to a regular schedule of internal audits.**

### INTERNAL AUDIT

One of the most striking impressions left on the Committee by its review was the crucial role played by internal audit in the proper management of government departments and programs — and the failure of internal audit in this instance to bring abuses under the Program to a timely halt.

One explanation for this failure can be found in the relationship between internal audit units and senior departmental management. Senior managers, including deputy ministers, face a natural temptation to “manage” unfavourable audit results, either by withholding them from external distribution or by diluting the findings to avoid an unflattering portrait of management within their departments. As long as deputy ministers retain the final authority over internal audit, there will be no possibility that this temptation can ever be entirely eliminated.

In its 10th Report (37th Parliament, 2nd Session), the Committee expressed similar concerns and recommended that the internal auditing function be placed under centralized control in Treasury Board Secretariat. This recommendation was rejected.

The hearings on the Sponsorship Program have confirmed the Committee's view that an effective internal audit function is indispensable to sound management in departments. The evidence shows that although an earlier review and an audit commissioned by the internal audit function at PWGSC identified many of the very same questionable practices that characterized the management of the Sponsorship Program, effective corrective measures were not taken. On the contrary, the same individual who presided over the unit responsible for these dubious practices was promoted and placed in charge of running the Sponsorship Program. In addition, the Department saw no necessity to monitor the performance of the unit or its executive director. Nor did it think it necessary to separate procurement from contract management as practiced elsewhere in the Department and as recommended by the audit it had commissioned. All of these findings serve to underline the urgent necessity to give internal audit units greater autonomy from senior departmental management.

In the past year, the government has taken steps to reinforce its ability to monitor and control expenditures within departments. The position of Comptroller General of Canada has been restored as a distinct office within Treasury Board Secretariat. As such, the Comptroller General, who has deputy minister status and reports to the President of Treasury Board, will be involved in the staffing of the comptroller positions in departments

and agencies, since departmental comptrollers will also have a functional reporting relationship to the Comptroller General.

Changing the relationship of departmental internal auditors to give them enhanced autonomy would be entirely in keeping with the new roles and relationship currently in place for the Comptroller General and departmental comptrollers. The government is now taking steps to restore the internal audit function to the robust position it held prior to the program review exercise. Accordingly, this may be an appropriate time to change the structural reporting relationship of the function within government. The Committee recommends:

#### **RECOMMENDATION 6**

**That internal audit be placed under centralized authority located within Treasury Board Secretariat.**

#### **RECOMMENDATION 7**

**That overall authority for the internal audit function in government be assigned to the Comptroller General of Canada.**

#### **RECOMMENDATION 8**

**That the government continue to restore the internal audit function and report to Parliament on the status of the internal audit function on an annual basis, addressing such issues as the levels of human, financial, and technological resources being devoted to the function.**

As indicated above, the Committee was astonished to discover that the principal recommendation of the review that took place in 1996 — that the selection and procurement processes for contracting be separated — never occurred. This should have been brought to the attention of Treasury Board Secretariat and Parliament but was not. In order to prevent this from happening and in order to provide Parliament with the assurance it needs that internal audits lead to appropriate and timely corrective action, the Committee recommends:

#### **RECOMMENDATION 9**

**That there be mandatory follow-ups of internal audits within one year of an initial audit with the results posted on the Treasury Board Secretariat Web site.**

The Committee recognizes that there may be instances in which it would be advisable not to adopt all recommendations stemming from internal audits. Circumstances change and government must have the flexibility to exercise discretion over the changes it makes to administrative practices and structures. Yet any decision to follow a different course of action than that recommended by internal audit units must be justified and made known. In recognition of this, the Committee also recommends:

#### **RECOMMENDATION 10**

**That all decisions to reject recommendations stemming from internal audits be documented, reported to Treasury Board Secretariat, and posted on the Treasury Board Secretariat Web site.**

The Advertising, Public Opinion and Research Service (APORS) was the subject of a critical audit done by an outside firm in 1996. APORS was subsequently merged with other functions to become the Communication Co-ordinations Services Branch (CCSB). Mr. Guité, formerly in charge of APORS became Executive Director of the new entity. Yet the CCSB was not subject to an internal audit until 2000. This was the result of poor judgment on the part of the Deputy Minister and the person in charge of the internal audit unit at PWGSC. In the case of new entities within departments an internal audit within a reasonable length of time after their creation would allow for early corrective action if there were need for it. The decision to conduct such an audit should not be a matter of discretion but should occur automatically. The Committee therefore recommends:

#### **RECOMMENDATION 11**

**That all new branches within departments and agencies be subject to internal review one year following their establishment and a follow-up internal audit be conducted within six months.**

As indicated above, the Communications Co-ordination Services Branch was established within Public Works and Government Services Canada and was able to function in an environment of minimal controls without any effort to correct the situation. This occurred in spite of earlier warnings about the faulty control environment inside CCSB's predecessor and the questionable methods used by Mr. Guité. No new entity within a department should be allowed to begin operation until there is solid assurance that the proper financial management and control mechanisms are in place. Based on what the Committee has learned, it believes that this assurance needs to come from an autonomous source. The Committee therefore recommends:

#### **RECOMMENDATION 12**

**That the Comptroller General of Canada be authorized to sign off on all internal re-organizations or creation of new departments or agencies to**



**ensure that the corporate and internal audit systems remain intact, functioning, adequate, and capable.**

## **CONTRACTING MANAGEMENT**

A clear message that emerged from the Committee's review, as well as from earlier studies, was that the rules and regulations that govern contracting in the government are unambiguous and appropriate. Yet previous experience has shown, and this episode has sadly confirmed, these rules and regulations are widely ignored or broken. Those who circumvent or break the rules are seldom if ever reprimanded. Those responsible for managing the Sponsorship Program broke all of the contracting rules, and likely did so in full knowledge that they would suffer no penalty as a result.

Those engaged in contracting activities must be made aware that their performance is rigorously monitored and that there are real consequences for failure to adhere to the rules. The Committee therefore recommends:

### **RECOMMENDATION 13**

**That internal audit units monitor adherence to contracting rules and regulations and report non-compliance to Treasury Board Secretariat.**

### **RECOMMENDATION 14**

**That administrative penalties up to and including dismissal from the Public Service of Canada be established to discourage non-compliance with contracting rules and regulations.**

### **RECOMMENDATION 15**

**That when public service employees working in procurement are subject to annual evaluations, or being considered for performance bonuses or promotion, adherence with contracting rules and regulations be taken into account.**

### **RECOMMENDATION 16**

**That Treasury Board Secretariat report to Parliament on a regular, timely basis on departmental contracting activity. Reports should include references to instances of non-compliance and corrective measures/sanctions.**

The Committee has long held the view that Treasury Board Secretariat should play a more active role in ensuring that its contracting policy and regulations are respected. It is simply inadequate to formulate policy and expect that it will be followed without monitoring adherence and intervention when non-compliance is suspected. The Committee therefore recommends:

#### **RECOMMENDATION 17**

**That Treasury Board Secretariat actively challenge departments on their contracting activities with an emphasis on areas of highest risk.**

It is normal practice in government to separate contract procurement from contract management and payment. This was how things were done in APORS prior to Mr. Guité's merger of the two functions: one unit awarded contracts through competitive tender; another managed the contracts themselves and arranged for payment once the contracted goods or services had been delivered. As the Auditor General has pointed out, there is a good reason for this kind of arrangement: it eliminates, "as far as possible, any opportunities for fraud or misstatement or an override of controls by management." (3.22) Yet this separation of roles and responsibilities was itself eliminated under Mr. Guité and allowed to remain that way. The Committee believes that this must never happen again and recommends:

#### **RECOMMENDATION 18**

**That Treasury Board Secretariat amend its contracting policies to require that the awarding and management of contracts are conducted as separate activities by separate units within departments, enforce these policies and monitor their application to ensure that they are rigorously adhered to.**

#### **FILE MANAGEMENT**

Witnesses who had worked within the CCSB told the Committee that rules — including rules requiring proper documentation in the sponsorship files — were not broken because there were no rules to break. This is unacceptable. At minimum, there must be sufficient documentation on file to provide an audit trail for internal auditors and to support certification that goods and services have been delivered as per contract requirements. Had this sort of documentation been required, opportunities to accept and approve for payment invoices for undelivered services would not have been available. In order to eliminate any ambiguity in this regard, the Committee recommends:

## **RECOMMENDATION 19**

**That departments provide clear statements of required documentation on files involving contracting, grants and contributions, and communications and advertising activities, to satisfy accountability, internal audit, performance reporting, and payment requirements.**

Furthermore, to make the need for adequate documentation absolutely clear, the Committee recommends:

## **RECOMMENDATION 20**

**That Treasury Board Secretariat amend the appropriate policies by the inclusion of a prohibition against issuing payments of grants or contributions, or for contracts in the absence of required documentation.**

## **CROWN CORPORATIONS**

The Committee was particularly disturbed by the actions of the Crown corporations that were involved in the Sponsorship Program. Despite the fact that these entities operate with public funds and are public sector organizations, they behaved as if they had no responsibility to act in a transparent or accountable way. It is clear that under current circumstances, Parliament is unable to exert the degree of control over these entities that is needed, particularly in light of behaviour with regard to the Sponsorship Program.

On 17 February 2005, Treasury Board Secretariat released a report on Crown Corporation Governance — *Review of the Governance Framework for Canada's Crown Corporations — Meeting the Expectations of Canadians*. The report discusses Parliament's role in legislation, oversight, and scrutiny with regard to Crown corporations, but — apart from bringing about the tabling of Crown corporation reports in the House of Commons — it does not propose any measures to change the status quo. The Committee believes that the involvement of some Crown corporations in the Sponsorship Program demonstrate that the current mechanisms that enable parliamentary oversight and scrutiny of Crown corporations are insufficient and therefore recommends:

## **RECOMMENDATION 21**

**That Parliament's ability to hold Crown corporations to account be enhanced.**

## RECOMMENDATION 22

**That Parliament's involvement in the selection and appointment of heads of Crown corporations be enhanced.**

The actions of the Crown corporations that were involved in the Sponsorship Program were, at very minimum, questionable. It is disturbing that these entities operating with public funds were able to act in a manner lacking in transparency and accountability.

The powers of the Auditor General vis-à-vis Crown corporations are established under the *Auditor General Act*. The Auditor General is authorized under the Act to conduct annual financial audits and special examinations (performance audits) at least once every five years of many Crown corporations. The results of financial audits are submitted to the responsible minister for tabling in Parliament. Reports based on special examinations, however, are reported to the Board of Directors of Crown corporations. In certain cases, these reports are also submitted to the responsible minister and to the House of Commons through the annual report of the Corporation.

In its report on Crown corporation governance (*Review of the Governance Framework for Canada's Crown Corporations — Meeting the Expectations of Canadians*) the Government is proposing to amend the appropriate legislation to make the Auditor General the external auditor for all Crown corporations and has indicated that it will require that each special examination (performance audit) report be submitted to Parliament.

In order to enhance the transparency surrounding the activities of Crown corporations and strengthen their accountability to Parliament, the Committee believes that any discretion over the public release of the results of special examinations should be brought to an end. Therefore, in keeping with the Committee's earlier recommendation that Parliament should have a stronger role in holding Crown corporations to account, and in keeping with the recent commitment of the Government of Canada, it recommends:

## RECOMMENDATION 23

**That the *Auditor General of Canada Act* be amended to give the Auditor General the authority to conduct performance audits of all Crown corporations and to report the results directly to Parliament, and that the Office of the Auditor General be given the resources necessary to do so.**

Throughout its hearings on the Sponsorship Program, the Committee was frustrated at its inability to fully comprehend the role played by the communications agencies. Witnesses from the agencies were less than forthcoming in their discussions with the Committee, and as entities outside the federal government, the agencies were beyond the purview of the Office of the Auditor General of Canada. While some of this information was

available as a result of the work of the Quick Response Team (QRT), the Committee was never fully satisfied that it possessed all that it needed to know.

A number of provinces empower their auditors general to “follow the money,” or investigate private entities that have received public money, either through a government grant or private contract.

The Quebec *Auditor General Act*<sup>39</sup> allows the provincial auditor to investigate grants made by a government agency to private parties. The auditor can access the records, files, documents and accounts of any establishment, institution, association or enterprise in relation to a grant made by a government agency. The Ontario *Auditor General Act*,<sup>40</sup> as of 1 April 2005, will allow the provincial auditor to conduct a special audit of a grant recipient. The recipient must give the Ontario Auditor General any information that he or she believes necessary, including all books, accounts, financial records, files and other documents. A similar law exists in Manitoba.<sup>41</sup>

British Columbia’s *Auditor General Act* goes further, authorizing the provincial auditor general to audit not just government grants, but a “transfer under an agreement,” meaning any contract between the British Columbian government and a supplier.<sup>42</sup>

The Committee asked the Auditor General whether any changes had been suggested to her Act as a consequence of her audit of the Sponsorship Program. She responded that some had suggested that perhaps her powers “should be expanded to be able to do what we call “follow the dollar” and go into organizations that receive funding from government.” She indicated that although she was satisfied with the authorities under her Act that “If that is the wish of the Parliament, obviously the Auditor General and my office will do as Parliament wishes.”

Were the Auditor General to have the authority to “follow the money” beyond the limits of government, this power would be exercised — as is the case with the majority of decisions concerning what and when to audit — at the Auditor General’s discretion. The existence of such an authority would accomplish two goals. In instances such as the audit of the Sponsorship Program, it would provide Parliament with a full explanation of the ultimate destination and use of public funds paid to achieve public policy goals. It would also act as a preventative by discouraging those who otherwise might be tempted to misuse public monies for purposes other than those intended. The Committee accordingly recommends:

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<sup>39</sup> S. Q. 1985, c. 38, s. 22.

<sup>40</sup> R.S.O. 1990, c. A. 35.

<sup>41</sup> Manitoba *Auditor General Act*, C.C.S.M. c. A180.

<sup>42</sup> BC *Auditor General Act*, SBC 2003, c. 2.

## **RECOMMENDATION 24**

**That the *Auditor General of Canada Act* be amended through the inclusion of a clause giving the Auditor General the authority to conduct an audit of the records, files, documents and accounts of any individual, establishment, institution or enterprise in relation to the receipt and/or use of any grant, contribution, or transfer under an agreement made to it by the Government of Canada.**

## **PARLIAMENT AND THE SPONSORSHIP PROGRAM**

The Auditor General's findings and the Committee's hearings have shown that Parliament was not in receipt of the information it needed to scrutinize the Sponsorship Program. As the Auditor General reported, the government "did not inform Parliament of the program's real objectives, nor has it ever reported the results." (3.14) The first mention of the Sponsorship Program in PWGSC's performance reports was in 2001, years after the program was initiated, and it only contained minimal information.

The only way to ensure that the transparency and the accountability that accompanies it are made real is to establish a formal reporting requirement regarding contracting and grants and contributions activities to Parliament. The Committee accordingly recommends:

## **RECOMMENDATION 25**

**That departments and agencies be required to include sections in their performance reports that specifically address contracting activities, grants and contributions, and transfers to other departments or agencies. The goals and objectives of these activities, performance indicators, and results must be clearly stated.**

Past study has convinced the Committee that Treasury Board Secretariat, which is responsible for Estimates documents, exercises little meaningful control over the framework of departmental performance reports. These reports often fail to mention key departmental activities or to address shortcomings and what will be done to overcome them. It is therefore of concern to the Committee that performance reporting with respect to contracting, grants, and contributions may skirt around or gloss over, problems. To avoid this possibility, and to improve the quality of performance reports in general, the Committee recommends:

## **RECOMMENDATION 26**

**That Treasury Board Secretariat develop a more effective monitoring and compliance regime, to ensure that departments and agencies reflect existing guidelines in their performance reports.**

One of the most deeply disturbing revelations contained in the Auditor General's report was that the CCSB had used "highly complicated and questionable methods to transfer sponsorship funds." (3.36) The CCSB had made payments to Crown corporations "through communications agencies ... rather than transferring the funds to the corporations directly." (3.37) If, according to the Auditor General, the Sponsorship Program had been framed as a contribution under the Treasury Board's Policy on Transfer Payments, then the CCSB would have had to follow a more structured approach that would have required more information be given to Parliament. (3.37) In acting as it did, the CCSB, in the opinion of the Auditor General, "violated the intent of the transfer payments policy." (3.39)

Mr. Guité's testimony confirmed that, in effect, funding allocated by Parliament to PWGSC had been transferred from the CCSB to Crown corporations using communications agencies as a conduit. In return the communications agencies charged their usual commissions, thus adding cost to the Program without achieving reciprocal value. These transfers were effected without obtaining prior authorization from Treasury Board — and without Parliament's knowledge or approval. Mr. Guité was able to do this because of ambiguities and lack of specificity in Treasury Board policies and because there was no specific prohibition against doing so. He was also able to do this, as the Auditor General observed, because sponsorships had not been structured as contributions. The Committee wishes to prevent similar maneuvering around reporting requirements and therefore recommends:

## **RECOMMENDATION 27**

**That all programs involving payment to individuals or entities outside government that do not result in the direct receipt, by government, of goods or services in return be framed as contributions under the Treasury Board's Policy on Transfer Payments.**

## **THE PUBLIC SERVICE OF CANADA**

During its earlier review of an audit of three contracts issued under the Sponsorship Program to communications agency Groupaction, the Committee learned that an assistant to the Minister of Public Works and Government Services, who had overseen the Program in the Minister's office, transferred to the Department and became the executive director of CCSB following Mr. Guité's retirement. It was evident that this individual knew very little about public service regulations or his obligations under the *Financial Administration Act*. Yet, as a former assistant to the Minister, he was able to transfer to the Public Service and

assume a position of responsibility because of provisions in the *Public Service Employment Act*. The relevant sections of the *Act* read as follows:

- 41(2) Priority for appointment over all other persons shall be given to a person employed in the office of a minister, or in the office of a person holding the recognized position of Leader of the Opposition in the Senate or Leader of the Opposition in the House of Commons, for a period of one year after the person ceases to be so employed, if
  - (a) the person was an employee immediately before becoming employed in that office; or
  - (b) while employed in that office the person was found by the Commission, in an advertised external appointment process, to have met the essential qualifications for an appointment to the public service
- (3) Priority for appointment, to a position at a level at least equivalent to that of executive assistant to a deputy head, shall be given over all other persons to a person who for at least three years has been employed as the executive assistant, special assistant or private secretary in an office referred to in subsection (2) or in any of those capacities successively, for a period of one year after they cease to be employed.

The Committee was of the view that these sections of the *Act* contradicted the *Act*'s underlying purpose of ensuring the political neutrality of the Public Service of Canada and conflicted with the Public Service Commission's role as guardian of the merit principle. The Committee therefore recommended, in its 10th Report (37th Parliament, 2nd Session), that these sections of the *Act* be thoroughly reviewed to ensure that they were being applied properly.

The review of the Sponsorship Program has reinforced the Committee's strong reservations about the ability of ministerial exempt staff — partisan appointments — to move into senior positions in the Public Service of Canada. Any utility obtained as a consequence of these transfers is overshadowed by the potential politicization of the upper ranks of the Public Service and does not strengthen the perception of the Public Service as a neutral body made up of employees who hold their positions based upon their competence. Accordingly, the Committee now recommends:



## **RECOMMENDATION 28**

**That section 41(2) — 41(3) of the *Public Service Employment Act* be repealed immediately.**

The Committee noted that although there were sound reasons to question Mr. Guité's performance and ability prior to the creation of the CCSB, he was the beneficiary of several promotions, including his final elevation to the position of ADM reporting directly to the Deputy Minister. All that was required was that the Deputy Minister fill out the appropriate forms and send them to Treasury Board Secretariat for approval. The Committee finds it astonishing that no challenge was ever issued regarding Mr. Guité's rise when there were clear warning signs that he should not be put in charge of contracting activities. The Committee accordingly recommends:

## **RECOMMENDATION 29**

**That Treasury Board Secretariat examine the procedures that are in place for reviewing and approving candidacies for all EX-level appointments and promotions to ensure that past performance is taken into account.**

## **CONCLUSION**

In the aftermath of a lengthy review, the Committee has reached several conclusions which mirror those of the Auditor General of Canada. The objectives of the Sponsorship Program along with its costs and the results it produced were never presented to Parliament as they should have been. Borrowing from an earlier observation made by the Auditor General in regard to another unfortunate matter, Parliament was kept in the dark. The financial controls that should have been in place were not. The documentation that was needed to provide proof that value was obtained for money spent was absent. The persons in charge of the Sponsorship Program broke, bent, or circumvented existing rules and did so without any apparent regret or misgiving. A highly irregular relationship between a minister of the Crown and a lower-ranking public servant — one that bypassed the deputy minister with that deputy's knowledge — was allowed to continue undisturbed. Those whom Parliament and Canadians rely upon to make sure that poor management and potentially unlawful activities are caught, ended, and sanctioned failed to live up to the trust placed in them. It would be difficult, indeed impossible, to conceive of any way in which this program did not go wrong.

At this time, the courts and the Royal Canadian Mounted Police are determining whether criminal culpability was involved in the mishandling of the Sponsorship Program. The Committee trusts that they will perform their tasks and that the appropriate penalties, if called for, will be applied and justice done.

For its part, the Committee desires that through its work and its recommendations — if accepted and fully implemented — the administrative lapses inside government that allowed the Sponsorship Program and the actions of those charged with its management and oversight to escape detection and punishment will be corrected. The Committee also sincerely hopes that its hearings have helped reveal the truth and provided Canadians with a better understanding of a series of events that have so badly served them.

## APPENDIX A LIST OF WITNESSES

<b>Associations and Individuals</b>	<b>Date</b>	<b>Meeting</b>
<b>Treasury Board of Canada</b> Hon. Reg Alcock, President	17/02/2004	3
<b>House of Commons</b> Rob Walsh, Law Clerk and Parliamentary Counsel	17/02/2004	3
<b>Office of the Auditor General of Canada</b> Louise Bertrand, Principal Ronald Campbell, Assistant Auditor General Sheila Fraser, Auditor General Shahid Minto, Assistant Auditor General Jean Ste-Marie, Legal Advisor and Assistant Auditor General	19/02/2004	4
<b>Privy Council Office</b> Kathy O'Hara, Deputy Secretary to the Cabinet, Machinery of Government		
<b>Department of Public Works and Government Services</b> Yvette Aloisi, Assistant Deputy Minister, Corporate Services, Human Resources and Communications Branch Guy Bédard, Assistant Executive Director, Public Programs and Services Branch at Communication Canada George Butts, Director General, Acquisition Program Integrity Secretariat Sector I. David Marshall, Deputy Minister	24/02/2004	5
<b>Treasury Board of Canada Secretariat</b> Jim Judd, Secretary of the Treasury Board and Comptroller General of Canada		
<b>Department of Public Works and Government Services</b> I. David Marshall, Deputy Minister	26/02/2004	6
<b>Treasury Board of Canada Secretariat</b> Jim Judd, Secretary of the Treasury Board and Comptroller General of Canada		
<b>Canadian Centre for Management Development</b> Janice Cochrane, President Ranald Quail	01/03/2004	7

<b>Associations and Individuals</b>	<b>Date</b>	<b>Meeting</b>
<b>Department of Foreign Affairs and International Trade</b> Peter Harder, Deputy Minister	02/03/2004	8
<b>As Individual</b> Allan Cutler		
<b>Office of the Auditor General of Canada</b> Sheila Fraser, Auditor General David Rattray, Assistant Auditor General	11/02/2004	9
<b>As Individual</b> Hon. Alfonso L. Gagliano, P.C.	18/02/2004	10
<b>Office of the Auditor General of Canada</b> Sheila Fraser, Auditor General		
<b>As Individual</b> Hon. Alfonso L. Gagliano, P.C.	19/02/2004	11
<b>As Individual</b> Myriam Bédard	24/02/2004	14
<b>As Individuals</b> Hon. Diane Marleau, P.C., M.P. Huguette Tremblay	25/02/2004	15
<b>Department of Public Works and Government Services</b> Norman Steinberg, Director General, Audit and Ethics Branch	29/02/2004	16-17
<b>As Individual</b> Hon. David Dingwall	05/04/2004	20
<b>As Individuals</b> Jean Pelletier Marc LeFrançois Hon. André Ouellet Claude Boulay Isabelle Roy	06/04/2004 07/04/2004 13/04/2004 19/04/2004 20/04/2004	21 22 23 25-26 27-28
<b>Royal Canadian Mounted Police</b> Guiliano Zaccardelli, Commissioner	21/04/2004	29
<b>As Individual</b> Charles Guité	22/04/2004	30-31
<b>As Individuals</b> John Hayter Bernard Michaud	27/04/2004	33

<b>Associations and Individuals</b>	<b>Date</b>	<b>Meeting</b>
<b>Department of Public Works and Government Service Former Quick Response Team</b>	27/04/2004	34
Myra Conway, Director General, Finance		
Steve McLaughlin, Director		
Rodney Monette, Assistant Deputy Minister, Government Operations Services Branch		
<b>As Individuals</b>		
David Myer	28/04/2004	35
Gilles-André Gosselin	29/04/2004	36
<b>Office of the Auditor General of Canada</b>	03/05/2004	38
Ronald Campbell, Assistant Auditor General		
Sheila Fraser, Auditor General of Canada		
<b>Privy Council Office</b>		39
Alex Himelfarb, Clerk of the Privy Council		
<b>As Individuals</b>		
Guy McKenzie	04/05/2004	41
Ranald Quail	05/05/2004	42
<b>Department of Political Science, University of Guelph</b>	06/05/2004	43
Patrick Boyer, Adjunct Professor		
<b>Queen's University</b>		
C.E.S. Franks, Professor Emeritus, Political Science		
<b>Office of the Auditor General of Canada</b>		
Ronald Campbell, Assistant Auditor General		
Sheila Fraser, Auditor General		
<b>As Individuals</b>		
Jean-Marc Bard		44
Richard Neville	11/05/2004	45



## **APPENDIX B**

# **MINISTERS AND DEPUTY MINISTERS 1996-2003**

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### **PUBLIC WORKS AND GOVERNMENT SERVICES CANADA**

#### **Minister**

November 1993 – January 1996	The Hon. David Dingwall
January 1996 – June 1997	The Hon. Diane Marleau
June 1997 – January 2002	The Hon. Alfonso Gagliano
January 2002 – 2002 May	The Hon. Donald Boudria
May 2002 – December 2003	The Hon. Ralph Goodale

#### **Deputy Minister**

1993 – April 2001	Ran Quail
April 2001 – June 2003	Janice Cochrane
2003	David Marshall

### **TREASURY BOARD OF CANADA**

#### **President**

January 1996 – August 1999	The Hon. Marcel Massé
August 1999 – December 2003	The Hon. Lucienne Robillard
December 2003 –	The Hon. Reg Alcock

#### **Secretary**

1995 – April 2000	Peter Harder
April 2000 – May 2002	Frank Claydon
April 2002 – December 2004	Jim Judd
December 2004	Wayne Wouters





## APPENDIX C

### TIMELINE OF MINISTERS, DEPUTY MINISTERS AND SENIOR PUBLIC SERVANTS RELATED TO SPONSORSHIP PROGRAM OF PUBLIC WORKS AND GOVERNMENT SERVICES CANADA (PWGSC)

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#### Clerks of the Privy Council:

Glen Scott Shortliffe	Jocelyne Bourgon	Mel Cappe	Alexander Himelfarb
(1992-1994)	(1994-1999)	(1999-2002)	(2002 – present)

#### Presidents of the Treasury Board:

The Honourable G. Loiselle	The Honourable J. S. Edwards	The Honourable Arthur Eggleton	The Honourable Marcel Massé	The Honourable Lucienne Robillard	The Honourable Reginald Alcock
(1990 – June 1993)	(June 1993 – Nov. 1993)	(November 1993 – January 1996)	(January 1996 – August 1999)	(August 1999 – December 2003)	(December 2003 – present)

#### Secretaries of the Treasury Board:

Ian D. Clark	Robert J. Giroux	Peter Harder	Frank Claydon	Jim Judd
(Nov. 1989 – May 1994)	(May 1994 – Nov. 1995)	(November 1995 – April 2000)	(April 2000 – May 2002)	(May 2002 – December 2004)

### Ministers of Public Works and Government Services Canada (PWGSC):

The Honourable Elmer MacKay	The Honourable David Dingwall	The Honourable Diane Marleau	The Honourable Alfonso Gagliano	The Honourable Donald Boudria	The Honourable Ralph Goodale	The Honourable Stephen Owen
The Honourable Paul W. Dick*						
(– November 1993)	(November 1993 – January 1996)	(January 1996 – June 1997)	(June 1997 – January 2002)	(January – May 2002)	(May 2002 – December 2003)	(December 2003 – January 2005)

\*Before 1994, Public Works and Government Services Canada was split into two distinct units: Departments of Public Works (MacKay) and Supply and Services (Dick).

### Deputy Ministers:

Ranald Quail (1993 – April 2001)	Janice Cochrane (April 2001 – June 2003)	David Marshall (June 2003 – present)
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### Sponsorship Spending, FTEs and Events:

Year	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
<b>Sponsorship Spending</b>	\$46,3 million	\$57,8 million	\$47,8 million	\$40,4 million	\$42,0 million	\$20,5 million	\$14,0 million
<b>FTEs</b>	n/a	4 FTE	5 FTE	4 FTE	4 FTE	20 FTE	40 FTE
<b>Events</b>	191 events	256 events	273 events	290 events	501 events	476 events	n/a

<b>Advertising and Public Opinion Research Sector (APORS)</b>  (1993 until November 1997)	<b>Communications Coordination Services Branch (CCSB)</b>  (November 1997 – 31 August 2001)	<b>Communication Canada</b>  (1 <sup>st</sup> September 2001 – 31 March 2004)
Director, Advertising and Research: C. Guité (– January 1995)	Executive Director: C. Guité (November 1997 – August 1999)	Executive Director: Guy McKenzie
Director General, APORS: C. Guité (January 1995 – November 1997)	Pierre Tremblay (September 1999 – August 2001)	

### **Sponsorship Program (1997 until 13 December 2003)**

<b>Ernst Young Audit of APORS</b>  (until November 1996)	<b>PWGSC internal audit of CCSB and Action Plan</b>  (March 2000 – 31 March 2002)	<b>Office of the Auditor General: May 2002 and November 2003 reports.</b>  <b>PWGSC: follow-up of internal audit, review of files, and implementation measures related to sponsorship program</b>  (May 2002 – November 2003)	<b>Sponsorship and advertising Reform (April 2003)</b>  Sponsorship – contribution program
----------------------------------------------------------------	-----------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------

### **SPONSORSHIP TIMELINE**

1997	Sponsorship program created to enhance visibility and positive perception of the federal government.
November 1997 -	Administration of Sponsorship program transferred to newly created Communications Co-ordination Services Branch (CCSB) under the direction of Charles (“Chuck”) Guité, who retired in 1999.
August 2000 -	PWGSC Internal audit of sponsorship program.
October 2000 –	PWGSC Management Action Plan on August 2000 Sponsorship Internal Audit.
September 2001 –	Program transferred to Communications Canada.

March 2002 –	PWGSC's Audit and Ethics Branch completed follow-up review of the August 2000 internal audit report of the sponsorship files.
March 2002 –	Auditor General of Canada, Ms. Sheila Fraser, was asked to review three contracts awarded to Groupaction between 1996 and 1999.
May 2002 –	Auditor General released her audit report on the three contracts. Ms. Fraser referred these contracts to the RCMP for further investigation.
May 2002 –	PWGSC undertook an initiative to scrutinize the Sponsorship program. Under the direction of the Chief Financial Officer, a Quick Response Team was assembled, comprising financial, procurement and audit specialists from within PWGSC.
May 2002 –	The former Prime Minister asked the President of the Treasury Board to make recommendations on how sponsorship, advertising and polling could be better managed to ensure value for money.
May 2002 –	Former Minister Ralph Goodale implements an immediate moratorium on future sponsorship initiatives.
June 2002 –	Standing Committee on Public Accounts (SCOPA) met with Ms. Janice Cochrane, former Deputy Minister of PWGSC, and indicated to the Committee that an Administrative Review was being carried out to determine the level of compliance with the <i>Financial Administration Act</i> , and the departmental policies of Treasury Board and PWGSC.
July 2002 –	Former Minister Ralph Goodale lifts the moratorium on the sponsorship program for the balance of the fiscal year. The program resumed, without the involvement of communications agencies as third party intermediaries of an Agency of Record, pending the outcome of the TBS review.
September 2002 –	The RCMP executed search warrants at the Groupaction offices, which are located in Montreal. The following day, the RCMP executed two more search warrants at a Montreal-area branch and warehouse.
October 2002 –	The Quick Response Team delivers its Final Project Report to the Minister.
October 2002 –	Former Deputy Minister of PWGSC launches administrative review.
December 2002 –	President of the Treasury Board and the then Minister responsible for PWGSC and Communication Canada jointly announce key changes to the sponsorship program.
February 2003 –	The former Deputy Minister of PWGSC extends administrative review to the balance of files of primary interest.
March 2003 –	Standing Committee on Public Accounts (SCOPA) submits its report on the three Groupaction contracts.
April 2003 –	Changes to the way advertising is managed by the Government of Canada are announced, following consultations with advertising industry and other stakeholders.
August 2003 –	Government Response to the SCOPA report.

September 2003 –	RCMP announces the laying of charges against Paul Coffin of Communication Coffin.
December 2003 –	The Prime Minister announces the cancellation of the program and the dismantling of Communications Canada.
February 2004 –	The Auditor General releases her report on the Sponsorship Program, Advertising and Public Opinion Research. Referred to the Standing Committee on Public Accounts (SCOPA). The Government has taken steps to see that SCOPA is being struck early to immediately begin receiving and reviewing the Auditor General's report on the sponsorship program.
February 2004 –	The Minister of PWGSC announces the establishment of an independent commission of public inquiry into the Auditor General's report examining past sponsorship and advertising activities with a view of formulating recommendations to prevent any abuses, breaches of ethics or mismanagement in the future. This inquiry is to be headed by the Honourable John H. Gomery, a Quebec Superior Court Judge.
March 2004 –	The government appointed a special counsel for financial recovery. Mr. André Gauthier, mandated to pursue all possible avenues, including civil litigation, to recover funds that were improperly received by certain parties involved in the delivery of the now cancelled Sponsorship Program.
April 2004 –	The federal government announced changes aimed at enhancing transparency, accountability, value-for-money and increased competition in the government's management of advertising activities.

**Source:** Public Works and Government Services Canada.

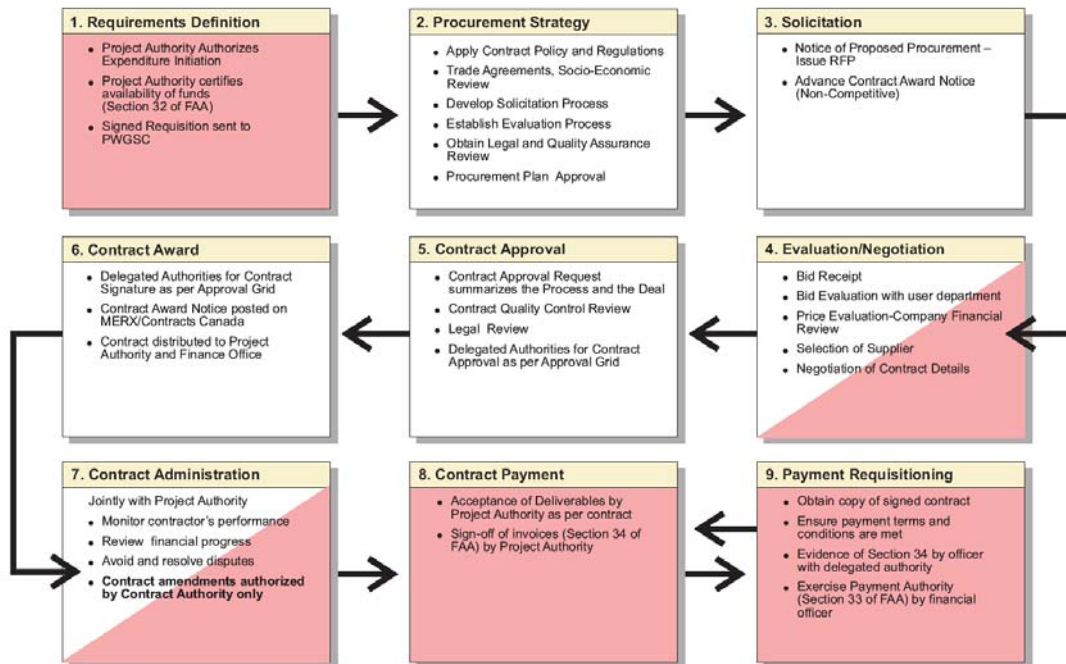


# APPENDIX D

## THE PROCUREMENT PROCESS IN PUBLIC WORKS AND GOVERNMENT SERVICES CANADA

### Typical Procurement Process PWGSC Control Framework

Project and payment authority: in customer department  
Contract authority: in PWGSC



**Source:** Public Works and Government Services Canada. **Note:** Shaded areas show responsibilities of project authority. Non-shaded areas show responsibilities of contract authority.



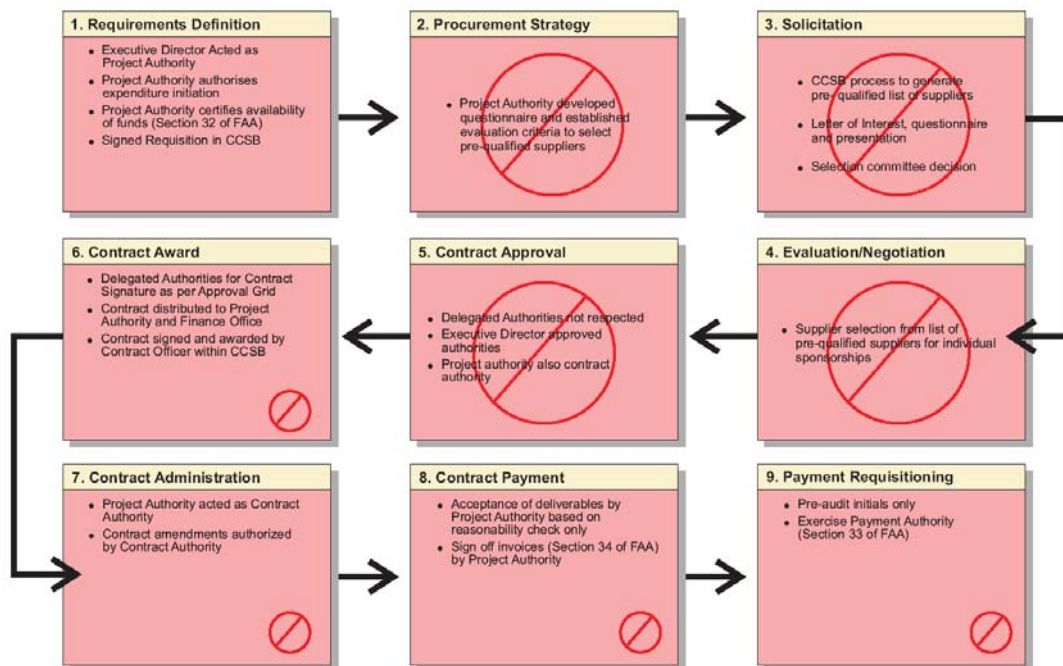


# APPENDIX E

## THE PROCUREMENT PROCESS IN THE COMMUNICATIONS CO-ORDINATION SERVICES BRANCH

### CCSB Procurement Process Outside PWGSC Control Framework

Project, contract, payment authority: in CCSB



**Source:** Public Works and Government Services Canada. **Note:** Shaded areas show that CCSB acted as both the Project and Contract authority for the Sponsorship Program. Circles with lines through them indicate steps not taken by the CCSB.



## APPENDIX F

### THE THIRTY-SEVEN POINT ACTION PLAN ISSUED IN RESPONSE TO THE 2000 INTERNAL AUDIT OF CCSB

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	PWGSC Management Response	OPI	Due Date	Status	Note
1) Ensure that CCSB contracting processes comply with TB directives, policies and procedures.	<b>Recommendation accepted</b>  <b>Completed</b>  A working session was held with Sponsorship Communications Agencies, September 2000, to inform them of all administrative, quality control and contractual requirements.		September 2000	<b>Completed</b>	Communications Agencies fully briefed on contractual requirements.
	Selection process for Communications Agencies will state the evaluation criteria set out in Appendix D of the Communications Policy and Appendix Q of the Contracting Policy.	A/Executive Director	August 2000	<b>Completed</b>	All solicitation processes now state evaluation criteria.
	Develop an implementation plan to have a new list of qualified Sponsorship Communications Agencies in place by April 1, 2001. The competitive process will be conducted in accordance with Treasury Board policies.		October 2000	<b>Completed</b>	New Standing Offers issued to competitively selected communications agencies in May 2001.

	<b>Action being taken</b>  Internal review committee of senior PWGSC officials will be struck to ensure that all sponsorship procurement solicitations and awards are in accordance with relevant TB contracting and financial policies, directives and procedures.	Deputy Minister	November 2000	<b>Completed</b> New solicitation process implemented on Feb. 27, 2001.	The committee met several times to oversee the new solicitation process. Final meeting held Feb. 20, 2001.
	Ensure that the selection process and the contracts issued to qualified agencies are in accordance with TBS policy.	A/Executive Director	April 1, 2001	<b>Completed</b>	All contracts issued from new solicitation will be in accordance with TBS policy.
	A preliminary report will be submitted to TB Ministers on PWGSC's plan and progress in responding to the audit.	A/Executive Director	December 31, 2000	<b>Completed</b> on Jan. 31, 2001	
	Continue to work with Treasury Board Secretariat and procurement policy specialists to resolve the market dominance situation.	A/DG Procurement (CCSB)	3rd quarter 2000-2001	<b>Completed</b>	Market dominance clauses and procedures. Fully applied.
	Ensure that the sponsorship administrative staff has adequate knowledge of relevant financial and contractual policies by completion of appropriate PWGSC training courses in contract and financial management.	A/Executive Director	3rd quarter 2000-2001	<b>Completed</b>	Training completed as required.

	Deliver a written follow-up of the working session held with the Communications Agencies to the Agencies by November 15, 2000.	A/Executive Director	November 2000	<b>Completed</b>	
	An Interim report will be submitted to Treasury Board Ministers on progress in responding to the audit.	A/Executive Director	October 2001	<b>Completed</b> on Jan. 28, 2002 * letter sent to President of TBS only	
	A review of sponsorship files initiated after the audit will be conducted and reported to Treasury Board Ministers.	Audit & Review Branch	March 31, 2002	<b>Completed</b> March 31, 2002 * no formal letters were sent * Audit published on web	
2) Implement appropriate processes and controls over the granting and management of sponsorships to ensure due diligence, consistency in approach, transparency of operations and adequate reporting.	<p><b>Recommendation accepted</b></p> <p><b>Completed</b></p> <p>Since April 1, 2000 internal sponsorship guidelines have been in place for use in decision making for the Government of Canada's sponsorship initiative.</p>			<b>Completed</b>	

	Two new resources have been staffed to support the sponsorship administrative and quality control procedures and the need for additional resources will be periodically reviewed.			<b>Completed</b>	Additional resources are providing documentation and increased quality control of all sponsorship files.
	The Sponsorship Guidelines have been provided to the Communication Agencies.			<b>Completed</b>	
	In September 2000 the Communications Agencies were informed that it is a mandatory requirement for them to submit a post mortem report and other relevant evaluation documents for all projects.			<b>Completed</b>	This requirement is mandatory on all sponsorship activities and is duly monitored.
	<b>Immediate Action</b>  Following a negotiated agreement the payment schedule for events is to be adjusted from 80% initial / 20% final to 50% initial / 50% final in line with industry practice.	A/DG Procurement (CCSB)	3rd quarter 2000-2001	<b>Completed</b>	New Standing Offers include new payment schedule.
	CCSB has requested a full accounting of sponsorship funds handled by the Agency of Record and a review will be conducted to ensure an appropriate financial process is being followed.	A/Executive Director	3rd quarter 2000-2001	<b>Completed</b>	New payment process in place. AoR contract modified.

	<b>Action being taken</b>  To facilitate the review and approval process for a sponsorship proposal, a visibility plan must be provided.	A/Executive Director	3rd quarter 2000-2001	<b>Completed</b>	CCSB monitors compliance for all sponsorships.
	A full review of the sponsorship guidelines and their application will be completed prior to April 1, 2001 for use in approval of future sponsorships.	A/Executive Director	4th quarter 2000-2001	<b>Completed</b>	Sponsorship guidelines updated and in use in approval of Sponsorships.
	Future competitive processes conducted to qualify Sponsorship Communications Agencies will contain the information on the methodology used to select an agency from the list of qualified agencies.	A/Executive Director	3rd quarter 2000-2001	<b>Completed</b>	New RFSO process includes selection methodology.
	Review the management control framework for sponsorships on an on-going basis.	A/Executive Director	Completed	<b>Completed</b>	New Framework in place.
3) Implement management controls to ensure sponsorship amounts are consistently determined (at a minimum level needed to attain expected results) and appropriately documented; and apply effective asset management including: control over the	<b>Recommendation accepted</b>  <b>Completed</b>  Working session held with all communications agencies in September 2000, to inform them of the improved administrative and quality control procedures, and to review contractual requirements.			<b>Completed</b>	See previous note on working session.

disposition of interest earned on cash advances, the establishment and control of production budgets, control over the inventory of promotional items, and stronger linkages between funds provided and results achieved.	Communications Agencies have been informed that a sponsorship request cannot receive approval until a visibility plan has been received.			<b>Completed</b>	CCSB monitors compliance on all sponsorships.
	In September 2000 the Communications Agencies were informed that it is a mandatory requirement for them to submit a post mortem report and other relevant evaluation documents for all projects.			<b>Completed</b>	Agencies were reminded of post-mortem requirement in follow-up, CCSB officers verify invoices and monitor compliance.
	Appropriate detailed invoices must be submitted by suppliers and these invoices must be verified and duly certified by the manager (section 34 of FAA) prior to being sent to finance for payment.			<b>Completed</b>	Agencies were reminded of requirement in follow-up, CCSB monitors compliance.
	Measures have been taken, and will be reviewed to ensure files are appropriately documented and that appropriate controls are in place for approval of all payments, such as production costs.			<b>Completed</b>	CCSB actively monitors proper documentation for approval of all payments.
	<b>Immediate Action</b>  All transactions will be fully documented and placed on file in advance of an approval by a manager or a person with delegated authority. (call-ups, production budgets, etc.)	A/Executive Director	October 2000	<b>Completed</b>	CCSB actively monitors proper documentation for approval by delegated authority.
	Final payments will be made only upon receipt	A/Executive Director	October 2000	<b>Implemented</b>	CCSB actively monitors receipt of post mortems prior



	of a post mortem.				to payments.
	<b>Action being taken</b>  Seek advice from PWGSC financial, legal, procurement specialists and Communications Agencies to clarify provisions for dealing with the interest earned on funds paid to the Agency of Record. The current agreement with the Agency of Record does not contain interest provisions.	A/Executive Director	3rd quarter 2000-2001	<b>Completed</b>	New payment processes in place. AoR contract modified.
	Initial commission payments to the Communications Agencies to be made once final visibility plans are approved.	A/Executive Director	3rd quarter 2000-2001	<b>Completed</b>	CCSB only makes initial payments upon receipt and approval of visibility plans.
	Require communications agencies to provide a quarterly inventory status report when they store production items.	A/Executive Director	4th quarter 2000-2001	<b>Completed</b>	

**Source:** Public Works and Government Services Canada



## APPENDIX G

# THE AUDITOR GENERAL'S RECOMMENDATION BASED ON HER AUDIT OF THE SPONSORSHIP PROGRAM

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The government should ensure the development of an action plan for sponsorship, advertising, and public opinion research activities that addresses all of the observations in the three chapters.

As noted in the report the government has undertaken a number of actions to strengthen the management of the sponsorship, advertising, and public opinion research activities. Continued effort is required by the government to ensure that these improvements are sustained. In particular the government should continue to ensure that

public servants understand their obligations and comply with the *Financial Administration Act*, and

public servants who are given responsibility for managing advertising activities have the necessary specialized expertise in the subject matter.

In addition, the action plan should include details of actions the government will take to ensure that

any operating units established to undertake new activities do so with proper control, accountability, and transparency;

public servants discharge their contracting responsibilities in a manner that complies with the Government Contracts Regulations and Treasury Board policies and that Public Works and Government Services Canada complies with its own policies and stands the test of public scrutiny in matters of prudence and probity, facilitates access, encourages competition, and reflects fairness in the spending of public funds;

parliamentary appropriations are respected;

any transfers of funds between government entities are conducted with transparency and efficiency;

arm's-length relationships are maintained between Crown corporations and government departments; and

action is taken on issues raised in any other review or investigation conducted by the government or by other agencies.

The action plan should specify time frames, accountabilities, and any recovery action or sanctions that the government decides to impose.



## APPENDIX H

# CORRECTIVE MEASURES TAKEN BY THE GOVERNMENT

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February 2004 — The Minister of PWGSC announced the establishment of an independent commission of public inquiry into the Auditor General's report examining past sponsorship and advertising activities with a view of formulating recommendations to prevent any abuses, breaches of ethics or mismanagement in the future. This inquiry was to be headed by the Honourable John H. Gomery, a Quebec Superior Court Judge.

March 2004 — The government appointed a Special Counsel for financial recovery. Mr. André Gauthier, mandated to pursue all possible avenues, including civil litigation, to recover funds that were improperly received by certain parties involved in the delivery of the now cancelled sponsorship program.

April 2004 — The federal government announced changes aimed at enhancing transparency, accountability, value for money and increased competition in the government's management of advertising activities.

**Source:** Public Works and Government Services Canada.

### Other Measures

The Comptroller General was asked provide overall leadership in ensuring that departments comply with Treasury Board policies for strong expenditure control and rigorous stewardship of public funds. To help achieve this goal, the Comptroller General was established as a distinct office in the Treasury Board Secretariat. The Comptroller General was asked to review and sign off on policy proposals to ensure that expenditure plans are sound. The Comptroller General, who has deputy head status, will report to the Secretary of the Treasury Board, and will be involved in the staffing of the Comptroller positions in departments and agencies, since Departmental Comptrollers will also have a functional reporting relationship to the Comptroller General;

Departmental Comptrollers are required to sign off on all departmental spending proposals before they are submitted to Cabinet for approval. They will also receive thorough training to meet new credential requirements. Targeted recruitment will be carried out to ensure that well qualified candidates serve as the government's future financial managers;

Ministers are expected to provide meaningful accountability and table informative reports in Parliament. Deputy Ministers and departments will use the government's recently released Management Accountability Framework to report to Treasury

Board on their stewardship of public resources. These reports will be published on departmental web sites

Treasury Board Secretariat launched three reviews to address major issues arising from the aftermath of the Sponsorship Program:

### **Review of the Financial Administration Act**

This review is examining how to strengthen the rules governing compliance, including the prevention and sanction of mismanagement. Under this review, the government is assessing whether current legislation and policies - including investigative and disciplinary authorities effectively support a modern approach to comptrollership. The *Financial Administration Act* is the statutory framework for the general financial management, accountability, and oversight of the public service and Crown corporations.

### **Review of the Governance of Crown Corporations**

This review assessed the governance and accountability regime for Crown corporations under Part X of the *Financial Administration Act* (FAA) and other Privy Council Office, Department of Finance, and Treasury Board policies and guidelines, as well as the regime for Crown corporations exempt from Part X of the FAA.

The review included:

an assessment of the capacity of Boards of Directors, Ministers, the Treasury Board Secretariat, the Department of Finance, the Privy Council Office and Parliament to effectively fulfill their responsibilities; and

ways to strengthen management, transparency and oversight of the governance and accountability framework for Crown corporations.

The results of the review were issued in February 2005.

### **Review of Accountabilities and Responsibilities of Ministers and Senior Public Servants**

This review sought to clarify the roles, responsibilities and accountabilities of Ministers and senior public servants. It was supported by independent, third party experts in parliamentary affairs and public administration including Professor Donald Savoie, former Auditor General Denis Desautels, and the former Clerk and Deputy Clerk of the House of Commons, Robert Marleau and Camille Montpetit.

The review examined:

who is accountable for what and to whom?

how well are accountabilities and responsibilities understood by Ministers, political staff and senior public servants? and,

what changes are needed to strengthen the accountability of Ministers and/or public servants?

The three reviews were to have been completed by September 30, 2004. To date, only the results of the review of Crown corporation governance have been released.





## REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this report.

A copy of the relevant Minutes of Proceedings (*Meetings Nos. 2, 6, 18, 20, 23 and 24 including this report*) is tabled.

Respectfully submitted,

John Williams, M.P.  
*Chair*



# MINUTES OF PROCEEDINGS

March 21, 2005  
(Meeting No. 24)

The Standing Committee on Public Accounts met *in camera* at 3:33 p.m. this day, in Room 253-D Centre Block, the Chair, John Williams, presiding.

*Members of the Committee present:* Dean Allison, Gary Carr, David Christopherson, Mark Holland, Daryl Kramp, Hon. Shawn Murphy, Benoît Sauvageau, John Williams and Borys Wrzesnewskyj.

*Acting Members present:* Mario Laframboise for Sébastien Gagnon, Ted Menzies for Brian Fitzpatrick and Beth Phinney for Hon. Walt Lastewka.

*In attendance: Library of Parliament:* Brian O'Neal, Analyst; Marc-André Pigeon, Analyst.

The Committee proceeded to the consideration of matters related to Committee business.

The Chair presented the Seventh Report from the Subcommittee on Agenda and Procedure which read as follows:

Your Subcommittee met on Monday, March 21, 2005, to consider to consider the business of the Committee and agreed to make the following recommendations:

1. That the schedule of hearings be adopted as presented, with time being allotted for the consideration of Bill C-277.
2. That a list of witnesses for the meeting to consider Chapter 5 of the November 2003 Report Auditor General of Canada be determined by the main Committee.
3. That the Committee not travel to Natuashish and Goose Bay, Labrador.
4. That, with respect to the Committee rules governing the rounds of questioning, the NDP be given an additional five (5) minutes during the second round of questioning on a trial basis.

It was agreed, — That the Seventh Report of the Subcommittee on Agenda and Procedure be adopted.

It was agreed, — That the following witnesses: the Auditor General of Canada, Allan Cutler, Warren Kinsella, Terrie O'Leary, Don Drummond and David Dodge be invited to appear in relation to the study of Chapter 5 of the November 2003 Report of the Auditor General of Canada on Monday, April 11, 2005.

Pursuant to Standing Order 108(3)(g), the Committee resumed consideration of Chapter 3, the Sponsorship Program, Chapter 4, Advertising Activities and Chapter 5, Management of Public Opinion Research of the November 2003 Report of the Auditor

General of Canada referred to the Committee on February 10, 2004.

The Committee resumed consideration of a draft report.

It was agreed, — That the Committee adopt the draft report as the Report to the House.

It was agreed, — That, pursuant to Standing Order 109, the Committee request that the Government table a comprehensive response to the report.

It was agreed, — That the Chair, Clerk and analysts be authorized to make such grammatical and editorial changes as may be necessary without changing the substance of the Report.

It was agreed, — That the Chair present the report to the House as soon as possible following the expiry of the forty-eight (48) hour notice period.

It was agreed, — That the Clerk and the analysts, in consultation with the Chair, issue a news release.

At 5:12 p.m., the Committee adjourned to the call of the Chair.

Elizabeth B. Kingston  
*Clerk of the Committee*