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**REPORT ON THE AUDIT OF  
CONTRACTS WITH THREE  
ADVERTISING AGENCIES IN THE  
DEPARTMENT OF TOURISM  
AND CULTURE**

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**DECEMBER 2004**

**GOVERNMENT OF THE YUKON  
GOVERNMENT AUDIT SERVICES BRANCH**

## Table of Contents

|  |    |
|--|----|
| <b>EXECUTIVE SUMMARY</b>   | 3  |
| <b>INTRODUCTION</b>  | 5  |
| Background   | 5  |
| Audit Objective and Scope  | 6  |
| <b>OBSERVATIONS AND RECOMMENDATIONS</b>  | 7  |
| Audit Criteria -1 – Request for Proposals  | 9  |
| Audit Criteria -2 – Standing Offer Agreements  | 11 |
| Audit Criteria -3 – Advertising Expenditures   | 13 |
| Audit Criteria -4 – Performance Reporting  | 14 |
| <b>TABLES</b>  |    |
| Table 1 - Summary Analysis of Department Performance over Contracts<br>with the Three Advertising Agencies | 8  |
| Table 2 – Analysis of Transaction Testing  | 18 |
| <b>APPENDIX 1 – Key Personnel Interviewed</b>  | 19 |

## EXECUTIVE SUMMARY

At the request of the Department of Tourism and Culture (the “Department”), Government Audit Services was asked if it would conduct an audit of contracts with three advertising agencies: specifically, Bergold Promotions based in Germany, for German speaking Europe; Jill White Marketing Agency based in the United Kingdom (UK); and Two Red Chairs, which handles the North American market (sometimes called the “Full Service Contractor”). This request was included in the Internal Audit Plan 2004-05, which was approved by the Audit Committee on July 23, 2004.

The objective of the audit was to assess the adequacy of the internal controls and management practices over the administration of agreements and contracts with the three advertising agencies. Our examination was conducted in July and August 2004 and covered the period from April 1, 2003 to June 30, 2004.

The audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing, and on the basis of an Audit Plan that was reviewed and approved by the Department. Except as explained in the following paragraph, the audit was conducted in accordance with the plan and included such tests and other procedures as considered necessary in the circumstances. In carrying out the audit, we relied on the records and files, information systems, and interviews with staff of the Department.

In our opinion the Department’s overall management practices, procedures and controls over the administration of agreements and contracts were found to be inadequate and severely deficient with two of the three advertising agencies. For those two agencies, it was found that the relationship between the Department and the advertising agents were primarily driven by older-standing legal agreements where budgetary controls and accountability for performance were not clearly laid-out or even expected. The deficiencies uncovered hindered the Department’s ability to assess contract performance and effectiveness. We recommend that all future proposals for Standing Offer Agreements (SOA’s) be publicly tendered and have a framework for promoting competition, performance and accountability. We understand that the European Market SOA is being drafted to provide this framework.

At the program level we also reviewed the European and UK combined cross border and Condor visitor values and noted that although the visitor numbers were being maintained year-over-year there was no evidence of any noticeable increase(s) in the numbers. Without seeing any return on investment for advertising in these markets, it proves difficult to evaluate the value of the expenditures. We suggest the Department consider performing a re-evaluation of its marketing initiatives outside

of North America and its relationships with these contractors, possibly with advice from the Yukon Tourism operators (within YTMP).

Our financial review of advertising contracts showed that the Department did not adequately exercise the spending and payment authorities as required under the Yukon's Financial Administration Act (FAA). Most pressing is the lack of controls and proper account verification procedures governing the substantiation of invoices from the European and United Kingdom advertising agencies; controls and procedures that all departments are mandated to follow according to Chapter 5 of the Financial Administration Manual (FAM).

From our review we found that written evidence of basic validation and mathematical checks were missing, invoices were not properly supported or compared to back-up documentation, and the form and meaning of the authority sign-offs were unclear and inconsistent. As most invoices and other documents submitted by the two contractors were photocopied records, we requested to see, on a test basis, some original invoices. The invoices submitted by the European contractor totalled about \$150,000. Of this amount, 30 original invoices valued at \$46,000 were not sent by the contractor. As a result, we were unable to offer any opinion concerning these particular transactions.

Primary responsibility for the account verification process lies with the Department's Finance Unit as prescribed in FAM. The Finance Unit will have to re-assess the overall process and procedures used by management, and within Finance itself, to ensure that proper account verification procedures are followed. The Marketing Branch, in turn, will have to regularly monitor the performance of work done under contract by the advertising agencies; a process we found was not in place. In implementing these actions, the staff of the Marketing Branch and Finance Unit will likely need some additional training. As well, account verification procedures will need to be developed and documented delineating the respective roles and responsibilities of these organizations.

In this report we describe where the program and financial control deficiencies have occurred in the administration of advertising agency agreements and contracts, and offer a number of recommendations where there are opportunities for improvement. At this time we are aware that Marketing has taken steps to address some of our recommendations, especially with respect to SOA's and we are pleased with the actions taken so far.

## INTRODUCTION

### BACKGROUND

The call for this audit was predicated by two main considerations. Firstly, the Department wanted to obtain assurance on the adequacy of their management practices over advertising agency contracts. Secondly, it wanted to address the public's current air of concern over the transparency of transactions and relationships between and among government officials and advertising agency representatives. This new concern arose from a recent report issued by the Auditor General of Canada on the federal government's Sponsorship Program.

The contracts we examined for the European and UK advertising agencies were "sole sourced". They covered a period of five years and were created at a time when this area of the tourism market was somewhat embryonic and unknown. Today, the Department's level of understanding and knowledge of the Yukon's tourism market and its relationship and interaction with the local business and local communities has matured – particularly via the Yukon Tourism Marketing Partnership ("YTMP").

The new 2004 European and current UK advertising agency SOAs' and contracts with the Department run for three and five years, respectively. They involve the provision of marketing services, distribution services for travel brochures and other materials, facilitating co-operative marketing arrangements with travel companies and other arrangements on behalf of the Yukon Government. The SOA for the European contractor was tendered in 2004 with an annual value of approximately \$600 thousand. It was recently awarded to Bergold Promotions. The terms and conditions of the new SOA were being drafted during the course of the audit.

The contracts with the UK and North American advertising agencies are valued at about \$150 thousand and \$1.2 million per year, respectively. The UK advertising agency contract was awarded in 2000 and is in the fourth year of its term. The North American contract was tendered in 2003 and runs for three years and is into its second year.

The responsibility for the planning and management of advertising and marketing contracts rests with the Marketing Branch. This Branch is led by a Director and is composed of 13 other employees. It has a total annual operating budget in excess of \$7.0 million.

## **AUDIT OBJECTIVE AND SCOPE**

The objective of this audit was to provide senior management with an opinion on the adequacy of internal controls and management practices governing the administration of contracts with the three advertising agencies. Our examination was conducted in July and August 2004 and covered the period from April 1, 2003 to June 30, 2004. The audit scope included interviews with selected departmental staff and other officials involved in the tendering, contracting and accounting processes. It included such tests of records, documents, transactions and other procedures, as considered necessary in the circumstances.

Our audit was neither intended to be a comprehensive review of every aspect of the Department's marketing program, nor was it designed as a means of giving an opinion on the Department's overall financial management practices and controls. We did not, for example, examine how other contracts or agreements are managed by the Department.

The audit was conducted in accordance with the Yukon Government's policy on Internal Audit Services and Activities and the Standards for the Professional Practice of Internal Audit. The audit criteria used to assess the Department's performance against the audit objective set for the audit were discussed and agreed to with management during the planning of the audit. These criteria are as follows:

1. Request for Proposal terms and conditions including the technical award criteria used for selecting contractors are in alignment with departmental objectives and follow industry standards and best practices.
2. Standing Offer Agreement terms and conditions flow from those set in the Request for Proposals and facilitate an appropriate management control framework.
3. Expenditures are processed and approved in accordance with the Government's financial policies and Management Board directives.
4. The Department regularly monitors contract performance and takes corrective action, where necessary, to ensure services are rendered effectively and economically.

We would like to acknowledge the high level of cooperation that was provided by the staff and management of the Departments of Tourism and Culture, and Justice. Their cooperation was crucial to the success of our work for this audit.

## OBSERVATIONS AND RECOMMENDATIONS

Below in **Table 1**, we summarize how we evaluated the Department's performance over each of the three advertising agencies using the audit criteria previously mentioned. The scorecard indicates how well the Department responded to the expectations and presents a description of the rating scale used in our analysis. Following the table we describe for each audit criteria, the specific audit observations and their rating, associated risks and recommendations.

The ratings shown represent the weakest link or lowest value given to each of three contracting agencies under each of the four criteria. These values are further broken down in the following section, which presents our detailed observations and recommendations. Note that the lowest value given is seen to be the overriding point that needs to be emphasized. Low value scores can essentially detract what could be construed as positive from any attributed higher values.

**Table 1 Summary Analysis of Department Performance over Contracts with the Three Advertising Agencies**

| AUDIT CRITERIA (“EXPECTATIONS”) |   | RATING  |          |    |
|---------------------------------|---|---|----------|----|
|                                 |   | North America   | European | UK |
| 1.                              | Request for Proposal terms and conditions including the technical award criteria used for selecting contractors are in alignment with departmental objectives and follow industry standards and best practices. | C   | C        | C  |
| 2.                              | Standing Offer Agreement terms and conditions flow from those set in the Request for Proposals and facilitate an appropriate management control framework.  | B   | D<br>C   | D  |
| 3.                              | Expenditures are processed and approved in accordance with the Government’s financial policies and Management Board directives.   | C   | D        | D  |
| 4.                              | The Department regularly monitors contract performance and takes corrective action, where necessary, to ensure services are rendered effectively and economically.  | C   | D        | D  |
| Rating                          |   | Explanation   |          |    |
| Very Good                       | A   | No significant control deficiency exists. The control system provides reasonable assurance that business and/or control objectives will be achieved, and that the related risks will be properly mitigated. Minor deficiencies, if any, will be addressed as time and resources permit.         |          |    |
| Satisfactory                    | B   | Few control deficiencies exist. The control system provides some assurance that business and/or control objectives will be properly achieved, but in a less efficient manner. Identified deficiencies may be reported in a management letter should be corrected to mitigate the related risks. |          |    |
| Not Satisfactory                | C   | Many significant control deficiencies exist. The control system provides a lower level of assurance that significant business and/or control objectives will be achieved. Identified deficiencies should be promptly corrected to mitigate the related risks.                                   |          |    |
| Seriously Deficient             | D   | The control system does not provide assurance that significant business and/or control objectives will be achieved. Immediate corrective action is required and should be given a high priority so that the risks will be mitigated.  |          |    |

For the following Criteria we have rated the European on two RFP’s. These ratings are separated by a slash with the oldest RFP first and the RFP from 2004 rated second.

## OBSERVATIONS AND RECOMMENDATIONS

| Audit Criteria                   | (1)   | Request for Proposal terms and conditions including the technical award criteria used for selecting contractors are in alignment with departmental objectives and follow industry standards and best practices. |          |          |   |
|----------------------------------|---|---|----------|----------|---|
| Observations and Risk Assessment |   | Rating  |          |          | Recommendations   |
|                                  |   | N-America   | European | UK       |   |
| 1.1                              | Contracting authorities are required to invite bids or proposals prior to entering into any contract or standing offer agreement, except as provided under Section 20 of the Contracting Directive. In the case of the UK advertising agency this requirement was not met and we were unable to find any evidence showing an exception was made pursuant to this section. |   |          | <b>C</b> | 1a) The Department must ensure future compliance to the Contracting Directives whenever RFP's are not required.<br><br>Note that the newly drafted European SOA has a framework that could be used for drafting the potential 2005 RFP for the possible UK advertising agency tender. |
| 1.2                              | The terms and structure of the recent European RFP was not specific enough to properly lay the appropriate foundation for a control framework within what <b>was</b> the original SOA working draft agreement.  |   | <b>C</b> |          | 1b) The lack of certainty in the 2004 European RFP should be corrected within the drafting of the 2004 SOA.   |

|  |  |   |          |    |  |
|--|--|---|----------|----|--|
| <b>Audit Criteria</b>  | <b>(1)</b>   | Request for Proposal terms and conditions including the technical award criteria used for selecting contractors are in alignment with departmental objectives and follow industry standards and best practices. |          |    |  |
| <b>Observations and Risk Assessment</b>  |  | <b>Rating</b>   |          |    | <b>Recommendations</b>   |
|  |  | N-America   | European | UK |  |
| 1.3  | The evaluation framework used to select the North American proponent under the 2002 RFP process caused the early elimination of a bidder from outside the Yukon. Yukon Content was assessed as mandatory in the RFP's technical evaluation. Usually, Yukon Content is assessed as part of the Price Component. Likewise, the mandatory technical requirement of proponent presentation was assessed as part of the non-technical evaluation, which is not the government norm. As a result, the design of the evaluation framework ended up favouring the Yukon proponent. | <b>C</b>  |          |    | 1c) The Department should ensure that future RFP's contain an appropriate assessment framework for evaluating and selecting proponents and that such frameworks adhere to the Government's stated principles which encourage and are responsive to fair competition for all respondents for government contracts. An appropriate assessment framework also ensures the Government is in compliance with the stated and agreed objectives of the national Canadian Agreement on Internal Trade (AIT). |
| <b>Risk Assessment</b>   |  |   |          |    |  |
| <p>(1) Sole sourcing with one contractor without evidence of proper authorization or reason to avoid the requirement for an RFP leads to favouritism and could damage the reputation of the Government.</p> <p>(2) The lack of a workable management framework for RFP's, by definition, hinders the Department from meeting all of its objectives and creates a situation of initial confusion in crafting the SOA and in assessing future contract performance.</p> <p>(3) The improper design and use of an evaluation framework for selecting contractors under an RFP process runs contrary to Section 9 of the Contract regulations which prohibits contracting authorities from using standards or evaluation criteria that unfairly limit competition.</p> |  |   |          |    |  |

**Management Response**

*The Department agrees with all of the recommendations in this part of the report. When RFP's are not required the Department will follow the Yukon Government's contract regulations and directive. It will also apply the recently developed European RFP framework for the upcoming UK representation RFP process (Recommendation #1a).*

*During the audit we modified the 2004 SOA for representation in German speaking Europe in consultation with the Department of Justice. As a result the issue raised by the audit to correct the 2004 European SOA has now been rectified (Recommendation # 1b).*

*In future, the Department will work with Contract Services to ensure a proper assessment process is utilized for all future RFP's and that the assessment process complies with the objectives of the Canadian Agreement on International Trade (Recommendation #1c).*

|   |  |               |  |          |   |
|---|--|---------------|--|----------|---|
| <b>Audit Criteria</b>                   |  | <b>(2)</b>    | Standing Offer Agreement terms and conditions flow from those set in the Request for Proposals and facilitate an appropriate management control framework. |          |   |
| <b>Observations and Risk Assessment</b> |  | <b>Rating</b> |  |          | <b>Recommendations</b>  |
|   |  | N-America     | European   | UK       |   |
| 2.1                                     | The current SOA for the UK contractor was sole sourced for a period of five years and exempted from competitive bidding without sufficient evidence of approval, as required under Section 20(f) of the Contracting Directive. Further, the agreement does not adequately identify and classify the services to be rendered. |               |  | <b>D</b> | 2a) Unless there are sufficient grounds to sole-source the 2005 UK Advertising Agency SOA; it should be tendered publicly allowing for a competitive bidding process.<br><br>2b) While awaiting the 2005 UK SOA, the current UK contractor, as far as is possible, should be moved closer to mirroring the service delivery processes encompassed in the new European system. |
| 2.2                                     | The structure and terms of the past SOA's did not provide for a meaningful framework that would enable the Marketing Branch to adequately plan, manage and exercise financial control over contracts issued.   | <b>B</b>      | <b>D/B</b>   | <b>D</b> | 2c) A whole new management control framework for the creation of new SOA's should be introduced, as and when they are renewed, moving management and spending control and approval back to the Department.<br><br>The new (2004) European SOA, which is awaiting approvals, appears to have substantially addressed the need for a meaningful management framework.           |
| 2.3                                     | The original contracting North American entities from 2002 have changed with the partnership relationships dissolving in March 2004.   | <b>C</b>      |  |          | 2d) The Government must quickly solve and correct the issues of uncertainty that exists around the membership and legal status of the North American contractor.  |

|  |   |  |          |                       |
|--|---|--|----------|-----------------------|
| <b>Audit Criteria</b>  | <b>(2)</b>  | Standing Offer Agreement terms and conditions flow from those set in the Request for Proposals and facilitate an appropriate management control framework. |          |                       |
| <b>Observations &amp; Risk Assessment</b>  |   | <b>Rating</b>  |          | <b>Recommendation</b> |
| 2.4  | The current agreements do not require ongoing “Conflict of Interest” declarations. This is only indicated in the RFP during the tendering process. Nor do they require ongoing declarations about changes in business ownership, control or status. |  | <b>B</b> | <b>D</b>              |
| 2e) SOA’s including RFP’s should include the following two clauses that state:<br><br>(1) “Contractors on an ongoing and anticipatory basis must inform Yukon of any current or future, actual or apparent “conflicts of interest” that may impair the transparency of any future or current transactions or relationships.”<br><br>(2) “Contractors must inform Yukon of any actual or proposed changes in the corporate residency, corporate legal entity status, or management control of the business”.  |   |  |          |                       |
| <b>Risk Assessment</b>   |   |  |          |                       |
| <p>(1) There is a risk that the contractor/YTG relationship could lose “transparency” or impair the legality of the contracting relationship.</p> <p>(2) The lack of a workable SOA framework, by definition, hinders the Department from meeting all of its objectives.</p> <p>(3) SOA conditions relating to “Conflicts of Interest” and “Change in Ownership” are not specifically required by Regulation. Such inclusions would be best business practice, as we observed that ownership changed without proper notification, putting the contractual relationship at risk.</p> <p>(4) The changes in entity for the North American Contractor create the risk of contracting issues leading to uncertainty around legal liability.</p>  |   |  |          |                       |
| <b>Management Response</b>   |   |  |          |                       |
| <p><i>The Department agrees with all of the recommendations in this part of the report. The Department will go to tender for the procurement of a UK representative utilizing the same RFP framework as was created in the recently completed and approved European SOA (Recommendation 2a). We have also moved the UK SOA control framework closer to the service delivery process now in place for the European SOA (Recommendation #2b). The new control framework now includes stronger measures to strengthen management control over spending and contractor performance (Recommendation #2c). On the North-American side, we obtained assistance from the Department of Justice to rectify the uncertainty around the legal status of the contractor. A Novation Agreement was signed by all parties on March 14, 2004 (Recommendation # 2d). All future SOA’s and RFP’s will contain clauses on conflict of interest and changes in ownership.</i></p> |   |  |          |                       |

| Audit Criteria                 |  | (3)       | Expenditures are processed and approved in accordance with the Government's financial policies and Management Board directives. |           |   |
|--------------------------------|--|-----------|---|-----------|---|
| Observations & Risk Assessment |  | Rating    |   |           | Recommendation  |
|                                |  | N-America | European  | UK        |   |
| 3.1                            | Only after the 2003-04 year-end did the contractors reconcile (and report) their expense analysis and summaries against the quarterly payments in advance.   |           | <b>D</b>  | <b>D</b>  | 3a) The current quarterly expense "payment-in-advance" to the contractor should cease as soon as is possible.<br><br>The new (2004) European SOA, which is awaiting approval, appears to have addressed this issue.       |
| 3.2                            | Contractor reconciliations showed unexpected types of expenditures, incorrectly dated items, several missing copy invoices, a lack of appropriate back- up information and little indication that they had been reviewed.  |           | <b>D</b>  | <b>D</b>  | 3b) The account verification process should be fully documented. Both Marketing and Finance staff need to clearly understand what verification tasks are assigned to their positions and the significance of those tasks. |
| 3.2b                           | Expenses of \$46,000 could not be validated to original invoices.  |           | <b>D</b>  | <b>OK</b> | 3c) The form and content of the sign-off between Section 29 and 30 of the FAA needs to be standardized and clearly understood by those officers who have approval and payment authority.                                  |
| 3.3                            | Summary reconciliations were found to have initials/signatures without any note as to what such notations meant.   |           | <b>C</b>  | <b>C</b>  | 3d) Expense reimbursements to the contractor should flow from and be paid after the completion of each marketing initiative.  |
| 3.4                            | Several North American invoices were processed for payment in contravention of Section 29 of the FAA and the account verification procedures as described in Chapter 5 of the FAM. Our tests found cases where copied invoices were submitted as originals, records in support of invoices were missing, and approvals on invoices, cheque requisitions or contracts were inappropriate (see Table 2, Analysis of Transaction Testing on page 17). | <b>C</b>  |   |           |   |

**Risk Assessment**

**Currently, the key control is the basic separation of the Accounts Payable Function from the Operating personnel.** Unfortunately, other basic spending controls have been weakened due to staff turnover and the lack of understanding and documenting of the basic account verification process and document hand-offs flowing from operations to the Department's Finance Unit.

**Management Response**

*The Department agrees with all of the recommendations in this part of the report. The 2004 European SOA no longer allows for a quarterly "expense payment in advance" (Recommendation #3a). This will apply as well to all future SOA's. The Department's finance unit is in the process of formally documenting the account verification process via the development of internal policies and procedures. In addition, the Department will host a workshop for all branches to explain the roles and responsibilities of managers and finance officers who have authority under Section 29 and 30 of the FAA, and the expectations and requirements that govern the account verification process (Recommendation #3b and c).*

*Prior to March 2004 Finance Officers reported directly to their respective Branch heads which may have contributed to some weaknesses in the account verification process. Since then Finance Officers have been reporting to Corporate Services. We are now taking further action to strengthen the account verification process and to ensure that all payments adhere to the government's financial policies, procedures and good management practices (Recommendation #3d).*

| <b>Audit Criteria</b>                     |  | <b>(4)</b>    |            | The Department regularly monitors contract performance and takes corrective action, where necessary, to ensure services are rendered effectively and economically. |   |  |
|---|--|---------------|------------|--|---|--|
| <b>Observations &amp; Risk Assessment</b> |  | <b>Rating</b> |            |  | <b>Recommendation</b>   |  |
|   |  | N-America     | European   | UK   |   |  |
| 4.1                                       | Original contracts and SOA's were structured with terms and conditions when little was known about this area of the overseas tourism market. As a result, SOA's and contracts did not anticipate future requirements for a suitable Management Control Framework, wherein some prescribed effective form of regular budget and planning overview and regular performance evaluation could occur. |               | <b>D/B</b> | <b>D</b>   | 4a) Each individual Marketing Initiative ("Project") should only be executed after being properly and specifically planned, budgeted, assessed and approved by the Marketing Branch with measures such that performance can be evaluated.<br><br>4b) The new SOA for the European market (awarded in April/2004), that is currently being drafted, needs to be crafted such that it provides an appropriate Management Control Framework. The potential 2005 SOA for the UK market should also be crafted in a similar manner. In the next year, until a new SOA is in place, each project should be separately evaluated in a manner similar to (1) above. |  |
| 4.2                                       | Budget estimates and invoices do NOT detail or make reference to any hourly rates and quantities, noting that all quoted dollar values are "round sums".   | <b>C</b>      |            |  | 4c) Each Budget submitted by the North American Contractor should be detailed by staff-level hours and rates, which then can be later compared to the final invoice. It should also be confirmed as to what an "estimate" really means (is it a maximum, estimated or fixed figure).  |  |
| 4.3                                       | We noted that the budget component of the Annual Plans prepared by the UK and European Contractors were simply a minor update of the prior years repetitive numbers.   |               | <b>C</b>   | <b>C</b>   | 4d) Contractor annual plans should be a conscious effort of re-thinking the strategy(s), goals or objectives of the Department. The plans should be structured so that the contractor will be suitably challenged; and in so doing maximise the value of using agencies as a method for marketing promotion.  |  |

**Risk Assessment**

**(1) European and UK Contractors:** The current agreements result in an imbalance of budgetary spending control which causes deficiencies in the Management Control Framework.

**(2) North American Contractor:** The round sum “fixed price” budget/invoice virtually negates any possibility of some sort of comparison or “value for money” analysis of the projects undertaken by the contractor.

**Management Response**

*The Department agrees with all of the recommendations in this part of the report. Each marketing project entered into by the Marketing Branch now requires clearly identified terms of reference and measures that allow for the evaluation of contract performance. As mentioned earlier under Recommendation 2c), the new SOA control framework that has been applied to the European SOA will henceforth be used in all future SOA’s (Recommendation 4a). As well, projects now developed in the UK will be separately evaluated in a manner consistent with the European SOA (Recommendation 4b).*

*For the North American representative, we will ensure the contractor submits a detailed budget on advertising fees showing how they are broken down by the number of staff hours and associated hourly rates. This will enable us to validate the invoice charges claimed by the contractor (Recommendation 4c).*

*At the planning level the Department’s annual campaign goals and objectives are predetermined in partnership with industry through the Yukon Tourism Partnership’s Senior Marketing Committee. In future we will collaborate more closely with the advertising agencies to ensure that the campaign strategies which they develop are driven by the Department and include measures needed to monitor performance Recommendation 4d).*

**Table 2 Analysis of Transaction Testing**

**Tourism Audit - 2004**

**Summary Statistics**

|  | Contracts # | \$Dollars Can   | Invoices# | Photocopies | Originals    | Back-Up    | Summary Reconciled | Proof of Review Approval | Signatures Inappropriate | Hourly Rates Noted | Performance Review |
|--|-------------|-----------------|-----------|-------------|--------------|------------|--------------------|--------------------------|--------------------------|--------------------|--------------------|
| <b>European - 01/Apr/2003 to 31/Mar/2004</b>       |             |                 |           |             |              |            |                    |                          |                          |                    |                    |
| Travel Expenses                                    |             | 35,099.34       | 48        | All         |              | Inadequate |                    |                          |                          |                    |                    |
| Agent's Costs to YTG                               |             | 207,256.40      | 19        |             | Ok           | Inadequate |                    |                          |                          |                    |                    |
| Specific Third Party Reimbursements                |             | 294,365.80      | 22        | All         |              | Inadequate |                    |                          |                          |                    |                    |
|  | 2           | \$ 536,721.54   | 89        |             |              |            | Yes                | Inadequate               |                          |                    | None               |
| <b>UK - 01/Apr/2003 to 31/Mar/2004</b>             |             |                 |           |             |              |            |                    |                          |                          |                    |                    |
| Other Expenses and Fees                            |             | 49,722.77       | 200       | All         |              | Inadequate |                    |                          |                          |                    |                    |
| Retainer Fee                                       |             | 77,400.00       | N/a       |             | Per Contract |            |                    |                          |                          |                    |                    |
| Specific Third Party Reimbursements                |             | 19,258.79       | 8         | All         |              | Inadequate |                    |                          |                          |                    |                    |
|  | 2           | \$ 146,381.56   | 208       |             |              |            | Yes                | Inadequate               |                          |                    | None               |
| <b>North American - 01/Apr/2003 to 31/Mar/2004</b> |             |                 |           |             |              |            |                    |                          |                          |                    |                    |
| <i>Summary of Observations</i>                     |             |                 |           |             |              |            |                    |                          |                          |                    |                    |
| Faxed/Photocopied invoices                         |             | 60,000.00       | 2         | Noted       |              |            |                    |                          |                          |                    | No                 |
| No backup  |             | 354,645.57      | 7         |             | Ok           | None       |                    |                          |                          |                    | No                 |
| Inappropriate signatures on contracts              |             | 453,982.59      | 3         |             | Ok           |            |                    |                          | Noted                    |                    | No                 |
| Inappropriate signatures on cheques                |             | 390,138.63      | 12        |             | Ok           |            |                    |                          | Noted                    |                    | 4 @ \$40k were OK  |
| Photocopy/No back-up/Chq Signature                 |             | 31,685.00       | 1         | Photocopy   |              | No         |                    |                          | Noted                    |                    | No                 |
| Other - OK   |             | 106,893.34      | 23        |             | Ok           |            |                    |                          |                          |                    | No                 |
| Total  | 22          | \$ 1,397,345.13 | 48        |             |              |            | N/a                | N/a                      |                          |                    | None               |

## Appendix 1

### Key Personnel Interviewed

#### **Department of Tourism and Culture**

|                 |   |
|-----------------|---|
| Sally Sheppard  | Deputy Minister                             |
| Pierre Germain  | Director, Marketing                         |
| Paule Senechal  | Director, Corporate Services                |
| Rod Raycroft    | Manager, Travel Trade                       |
| Denny Kobayashi | Manager, Mass Communications & Partnerships |
| Sheila Norris   | Marketing Officer                           |

#### **Other Departments**

|                  |   |
|------------------|---|
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