



## **Canadian Tourism Commission** Special Examination Report—2015

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

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OAG-BVG

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

To the Board of Directors of the Canadian Tourism Commission:

We have completed the special examination of the Canadian Tourism Commission in accordance with the plan presented to the Audit and Pension Committee of the Board of Directors on 21 August 2014. As required by Section 139 of the *Financial Administration Act* (FAA), we are pleased to provide the attached final special examination report to the Board of Directors.

We appreciated the opportunity to have presented the report and responded to your comments and questions at your meeting on 5 February 2015.

I would like to take this opportunity to express my appreciation to the Board members, management, and the Commission's staff for the excellent cooperation and assistance offered to us during the examination.

Yours sincerely,

A handwritten signature in black ink that reads 'Terrance DeJong'. The signature is written in a cursive style with a large, stylized 'D'.

Terrance DeJong, CPA, CA  
Assistant Auditor General

Vancouver, 20 February 2015



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# Special Examination Opinion

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## Opinion

To the Board of Directors of the Canadian Tourism Commission

1. In my opinion, based on the criteria established, there is reasonable assurance that during the period covered by the examination, there were no significant deficiencies in the Canadian Tourism Commission's systems and practices that we selected for examination. The Canadian Tourism Commission (the Commission) has maintained these systems and practices in a manner that provides it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

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## Findings that support the opinion

2. **Corporate governance.** Overall, we found that the Canadian Tourism Commission had in place elements of good governance that meet the expectations of sound practices in board stewardship, shareholder relations, and communications with the public.

3. **Strategic planning, performance measurement, and risk management.** Overall, we found that the Canadian Tourism Commission had systems and practices in place that clearly defined strategic direction in its planning, and specific and measurable goals and objectives to achieve its mandate. Its strategic direction and goals took into account government priorities, identified risks, and the need to control and protect its assets and manage its resources economically and efficiently. The Commission identified performance indicators to measure the achievement of its mandate and statutory objectives. The Commission also had an Enterprise Risk Management system in place, but lacked a formal assessment of the risk of fraud.

4. **Marketing activities.** Overall, we found that the Canadian Tourism Commission had systems and practices in place for its marketing activities to clearly define operational objectives and targets. It was also able to plan, design, implement, and monitor the marketing of Canada in a manner that safeguarded and controlled assets, enabled economical and efficient use of resources, and operated effectively to achieve its mandate of marketing Canada as a desirable tourist destination. However, there were some weaknesses in contracting.

5. **Tourism research.** Overall, we found that the Canadian Tourism Commission had systems and practices in place for its tourism research operations to clearly define operational objectives and targets. It was also able to plan, design, implement, and monitor operations in a manner that safeguarded and controlled assets, enabled economical and efficient use of resources, and operated effectively to achieve its mandate of providing information about tourism in Canada to the private sector and to the governments of Canada, the provinces, and the territories.

6. **Human resource management.** Overall, we found that human resources were managed in a manner that provided the Canadian Tourism Commission with the human resource capacity and the work environment it needed to achieve its goals and objectives.

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**Findings,  
recommendations,  
and responses**

7. The rest of the report provides an overview of the Commission and more detailed information on our findings and recommendations. The Commission agrees with all of the recommendations. Its detailed responses follow the recommendations throughout the report.

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**What the Corporation  
is required to do**

8. Under section 131 of the *Financial Administration Act* (FAA), the Canadian Tourism Commission is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that its assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.

9. Section 138 of the FAA also requires the Commission to have a special examination of these systems and practices carried out at least once every 10 years.

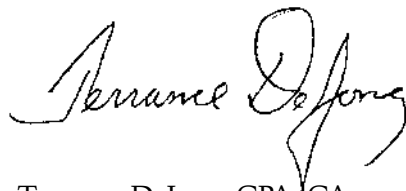
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**What the Office of the  
Auditor General is  
responsible for**

10. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination—from April 2014 to November 2014—there were no significant deficiencies in the Commission’s systems and practices that we selected for examination.

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**Signature and date**



Terrance DeJong, CPA, CA  
Assistant Auditor General  
for the Auditor General of Canada

9 January 2015  
Vancouver, Canada



# Introduction

## Background

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### Role and mandate

11. The Canadian Tourism Commission (the Commission) is a federal Crown corporation established by the *Canadian Tourism Commission Act*. It reports to the Parliament of Canada through the Minister of Industry, who has delegated his duties and powers related to the Commission to the Minister of State (Small Business and Tourism) (Agriculture).
12. The Commission's legislated mandate is to
  - sustain a vibrant and profitable Canadian tourism industry;
  - market Canada as a desirable tourist destination;
  - support a cooperative relationship between the private sector and the governments of Canada, the provinces, and the territories with respect to Canadian tourism; and
  - provide information about Canadian tourism to the private sector and to the governments of Canada, the provinces, and the territories.

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### Nature of business and operating environment

13. The Commission fulfills its mandate by working with a diverse tourism sector that includes the federal government, the governments of the provinces and territories, and the Canadian tourism industry to increase the number of international travellers and the level of Canada's export revenue.
14. The Commission markets Canada internationally to leisure travellers and travel agents, and to planners of conferences or corporate events that could be held in Canada. Its marketing investments focus on eleven leisure markets and five business markets outside Canada. In addition to its direct marketing, the Commission supports Canadian tourism businesses—mainly small- and medium-sized enterprises—by providing them with expertise and tools to attract travellers, and by facilitating their connection to international markets so that they can promote their businesses.
15. The Commission also leverages its funding by entering into marketing and research partnerships. Where it manages the partnered programs, partners pay their share of the costs for specific campaigns or activities. In 2013, the Commission received over \$9 million in revenues through partnerships to add to its appropriations of approximately \$60 million. In addition, it receives in-kind partner contributions. Examples include providing transportation or accommodation for Commission-organized media familiarization trips, or allowing

the Commission to advertise in publications or at events at no cost. The Commission estimated the value of these in-kind contributions in 2013 at about \$7 million.

16. The Commission contributes to Canada's Federal Tourism Strategy by stimulating tourism. It also takes steps to align its business events activities, which attract international meetings and conferences, with Canada's trade priorities.

17. An interim President and Chief Executive Officer (CEO) had been in place since 1 January 2014. In October 2014, the Governor-in-Council appointment of the Commission's new CEO was announced, effective 1 December 2014.

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### Current challenge

18. **Funding.** The Commission is mainly funded through parliamentary appropriations. Over the past few years, the level of funding has been cut from over \$100 million in 2010, to about \$72 million in 2012, to approximately \$58 million starting in 2014 and for the foreseeable future.

19. The Commission is taking steps to manage the funding challenge in various ways. For example, the Commission is

- continuing to leverage its funds through partnerships,
- reducing the number of staff and closing some of its international offices, and
- seeking increased efficiencies in administration.

### Focus of the audit

20. Our objective for this audit was to determine whether the systems and practices we selected for examination at the Canadian Tourism Commission were providing it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively. We selected systems and practices based on our assessment of risks in the following areas:

- corporate governance;
- strategic planning, performance measurement, and risk management;
- marketing activities;
- tourism research; and
- human resource management.

21. More details about the audit objective, scope and approach, systems and practices examined, and criteria are in **About the Audit** at the end of this report (see pages 21–24).

# Findings, Recommendations, and Responses

## Corporate governance

The Canadian Tourism Commission had in place key elements of good governance

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**Overall finding**



22. Overall, we found that the Canadian Tourism Commission had in place elements of good governance that meet the expectations of sound practices in board stewardship, shareholder relations, and communications with the public.

23. This is important because good governance practices help ensure the Commission can fulfill its mandate and meet the statutory objective outlined in the *Financial Administration Act*. This objective is to maintain systems and practices in a manner that ensures that

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

24. Our analysis supporting this finding on [governance](#) is presented in paragraph 29.

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**Context**

25. By early 2011, the size of the Commission’s Board of Directors had been reduced from a 26-member “representation-based” model to a 12-member “skills-based” model to enhance its relevance to both government and industry. Although the Board went through a period with a number of vacancies, by the end of 2013, all vacancies had been filled.

26. The Board functions with three standing Board committees and five advisory committees. Advisory committee members come from the tourism industry and various levels of government. The Chair for each committee is selected by the Board of Directors; the Chairs take part in the Commission’s strategic planning and meet with the Board periodically during the year to provide strategic advice. The committees currently cover five key tourism areas: emerging markets, core markets, research, business events, and “Brand” experiences (attractions that are unique to Canada). The Board can also create ad hoc committees and currently has one in place—a youth travel council.

27. The Commission maintains ongoing communication with the Minister of State (Small Business and Tourism) (Agriculture) in order to identify strategic opportunities and to align its activities with the priorities for tourism outlined in the Federal Tourism Strategy. Its strategic direction is also shaped by other matters on the Government's agenda, such as economic growth and trade.

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**Recommendation**

28. We made no recommendations in this area of examination.

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**Analysis to support this finding**

29. **Governance.** We found that the Board had key elements of good governance (Exhibit 1).

**Exhibit 1 Key elements of the Commission's governance practices**

Key elements	Findings
Roles and responsibilities and governance processes	The Board clearly defined its role and responsibilities as well as the governance processes for the Board, the standing committees, the advisory committees, and the Commission's management.
Committees	The Board was supported by a set of committees, including <ul style="list-style-type: none"> <li>• a Governance and Nominating committee,</li> <li>• an Audit and Pension committee,</li> <li>• a Human Resource committee,</li> <li>• ad hoc committees, and</li> <li>• five advisory committees.</li> </ul>
Mandate, strategy, and organizational performance	Each year, the Board approved the Commission's strategy and performance targets to achieve its mandate and objectives in an effective and efficient way.
Independence	Board members <ul style="list-style-type: none"> <li>• were informed that they are subject to the <i>Conflict of Interest Act</i>;</li> <li>• were required to disclose potential conflicts of interest at Board meetings, when needed; and</li> <li>• regularly conducted in-camera meetings without management.</li> </ul>
Competencies	Each year, the Board conducted a self-assessment to measure its performance and that of its committees in carrying out responsibilities. These assessments also identified areas for improvement. The Board used this information to establish an action plan and follow-up activities.  The Board <ul style="list-style-type: none"> <li>• provided new directors with key corporate documents and orientation sessions and informed them of training opportunities to enhance their competencies and skills;</li> <li>• had a Board profile, which identified the specific skills, knowledge, and experience to be considered when filling directors' positions; and</li> <li>• identified potential candidates to recommend to the Minister.</li> </ul>

## Exhibit 1 Key elements of the Commission's governance practices (continued)

Key elements	Findings
Communication	<p>The Board</p> <ul style="list-style-type: none"> <li>• completed an annual report and made it available on the Commission's website;</li> <li>• had ongoing communications with the Minister, other federal government departments, other levels of government, and the industry; and</li> <li>• held an annual public meeting.</li> </ul>
Management's performance	<p>The Board</p> <ul style="list-style-type: none"> <li>• managed the performance of the CEO through an annual performance management process,</li> <li>• oversaw succession planning for the CEO and senior executives, and</li> <li>• maintained ongoing communications with the CEO and the senior management team.</li> </ul>
Ethics and culture	<p>The Board</p> <ul style="list-style-type: none"> <li>• approved a Code of Ethics for directors, members of advisory committees, and all employees, and requires annual confirmation of compliance for employees;</li> <li>• had a separate Code of Conduct and an annual conflict of interest declaration for directors;</li> <li>• included whistleblowing as a standing item on the Audit and Pension Committee's quarterly agenda; and</li> <li>• was informed by management of any non-compliance with the Commission's Code of Conduct.</li> </ul> <p>In addition:</p> <ul style="list-style-type: none"> <li>• Directors and the Commission's management complied with the Commission's travel and hospitality policies and procedures.</li> <li>• The Audit and Pension Committee reviewed expenses for the Board Chair and the CEO. Quarterly expenses for the Chair and senior management were posted on the Commission's website.</li> </ul>

## Strategic planning, performance measurement, and risk management

**Overall finding** → 30. Overall, we found that the Canadian Tourism Commission had systems and practices in place that clearly defined strategic direction in its planning, and specific and measurable goals and objectives to achieve its mandate. Its strategic direction and goals took into account government priorities, identified risks, and the need to control and protect its assets and manage its resources economically and efficiently. The Commission identified performance indicators to measure the achievement of its mandate and statutory objectives. The Commission had an Enterprise Risk Management system in place, but lacked a formal assessment of the risk of fraud.

31. Long-term strategic planning, performance measurement, and risk management are important management tools that support the Commission in achieving its legislated objective and mandate. Performance measurement is also important for informed decision making and accountability.

## The Commission had in place strategic planning and performance measurement processes

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### What we found

32. We found that the Commission had in place systems and practices that clearly defined its strategic direction through its strategic planning and performance measurement processes. In our 2006 special examination, we found a significant deficiency in strategic management, including strategic planning, and weaknesses in performance measurement. Since that time, the Commission addressed this deficiency by implementing strategic management systems and practices. It implemented a “Balanced Scorecard” system, an integrated performance measurement and management framework.

33. Our analysis supporting this finding on [strategic planning and performance measurement](#) is presented in paragraph 38.

### Why this finding matters

34. The Commission’s strategic planning clearly linked its mandate and strategies with its objectives, and embedded risk management as well as defined performance measures with targets. Overall, alignment was achieved by cascading the corporate strategy throughout the Commission down to each individual’s personal performance expectations. The measurement framework integrated financial and non-financial measures to provide an overall view of the Commission’s performance.

35. The resulting strategic direction, planning, and objectives provided the Commission with a means to align its decision making and resource allocation with its priorities, objectives, and mandate. The integrated measurement framework is used to communicate its targets and track results.

36. In addition, this finding represents an important improvement since our previous 2006 special examination report, which identified a significant deficiency in this area.

### Recommendation

37. We made no recommendations in this area of examination.

### Analysis to support this finding

38. **Strategic planning and performance measurement.** We found that the Commission had in place key processes for setting strategic direction (Exhibit 2).

## Exhibit 2 Key processes for setting strategic direction through planning and performance measurement

Key processes	Findings
Strategic planning and performance measurement	<p>The Commission’s strategic planning included the following:</p> <ul style="list-style-type: none"> <li>• The Commission defined its mission and vision.</li> <li>• Planning took into consideration both internal and external environments.</li> <li>• The Commission consulted with key stakeholders and aligned its plans with government priorities.</li> <li>• Management and the Board were actively involved in strategic planning.</li> <li>• The Commission developed plans that reflected all aspects of its mandate.</li> </ul> <p>Risk management was embedded in strategic planning and risks were</p> <ul style="list-style-type: none"> <li>• reflected in budget allocations,</li> <li>• linked throughout strategic planning, and</li> <li>• linked to annual operational plans, especially in marketing.</li> </ul> <p>Performance measures for strategic objectives were developed.</p> <p>Strategic planning and operational planning included clear responsibilities and budgets.</p>
Communication—external and internal	<p>Objectives, measures, and targets were reported publicly in the five-year Corporate Plan Summary and results were published in the Annual Report.</p> <p>The strategic direction, plans, and objectives were communicated to staff annually.</p> <p>The Commission’s strategies were reflected in employees’ personal balanced scorecards.</p>
Monitoring	<p>The Board and management used defined strategies and measures to monitor performance during the year.</p> <p>Balanced scorecards were the basis for performance management.</p> <p>Management tracked budgets quarterly.</p>

### Risk management was embedded in the Commission’s practices, with one gap

#### What we found

39. We found that risk management was embedded in the Commission’s practices, with one gap. The Commission’s assessment of strategic risk and risk at all levels of its operations helped to achieve its mandate and objectives. Risks were identified, measured, mitigated, monitored, and reported to both management and the Board. Risk management was also part of strategic and operational planning. Further, we found that the Commission acted decisively to manage potential risk related to fraud and wrongdoing. However, the Commission lacked a formal identification and assessment of the risk of fraud in its risk oversight processes.

40. Our analysis supporting this finding is presented in paragraphs 43 and 44 and discusses

- [risk management processes](#) in place, and
- [assessment of the risk of fraud](#).

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**Why this finding matters**

41. Risk management is a tool the Commission uses to mitigate risks that could impede its ability to achieve its mandate, objectives, and priorities. Assessing the risk of fraud and mitigating any residual risk are important for the Commission given its global work environment, differences in culture and language, and reliance on third-party agreements.

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**Recommendation**

42. Our recommendation in this area of examination appears in paragraph 45.

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**Analysis to support this finding**

43. **Risk management processes.** We found that management had in place key processes for risk management (Exhibit 3).

**Exhibit 3 Key risk management processes**

Key processes	Findings
Roles and responsibilities	<p>The Commission defined clear roles and responsibilities regarding risk management for</p> <ul style="list-style-type: none"> <li>• the Board and the Audit and Pension Committee,</li> <li>• the Chief Financial Officer, and</li> <li>• all members of senior management.</li> </ul>
Risk assessment	<p>The Commission</p> <ul style="list-style-type: none"> <li>• assessed the likelihood of risk occurring and the potential severity of impact,</li> <li>• ranked residual risks, and</li> <li>• identified risk in its strategic and operational planning.</li> </ul>
Information used to monitor changes in risk and mitigating action plans	<p>The Enterprise Risk Management information identified the following elements:</p> <ul style="list-style-type: none"> <li>• potential risks,</li> <li>• inherent and residual risk,</li> <li>• mitigating actions and where they were needed, and</li> <li>• action plan for follow-up by risk owners.</li> </ul> <p>Risks and assessments changed as events occurred. Management made revisions as needed and presented them to the Audit and Pension Committee.</p>



44. **Assessment of the risk of fraud.** The Commission had practices in place that helped mitigate the risk of fraud and wrongdoing and that supported ethical behaviour. The Commission had a Code of Ethics for directors as well as for members of the advisory committees and employees. Employees were required to confirm their understanding and compliance annually. Directors also had a separate Code of Conduct with an annual conflict of interest declaration. In addition, the Commission's management and the Board demonstrated that they understood what needed to be done to address breaches in ethical practices. When situations arose, the Board and management acted quickly and decisively to assess the problem and mitigate any residual risk. In doing so, they demonstrated the Commission's expectations for ethical business conduct. As well, the Commission conducted training for staff on expected behaviours. However, documentation supporting Enterprise Risk Management did not include an assessment of the risk of fraud and the controls needed to manage the risk.

45. **Recommendation.** The Canadian Tourism Commission should add a formal fraud risk assessment to its Enterprise Risk Management processes.

*The Commission's response. Agreed. Management will incorporate a formal fraud risk assessment in its next Enterprise Risk Management process, planned for the second quarter of 2015. Management will also use the findings and recommendations from internal audit work performed in its global operations to help inform this assessment.*

## Marketing activities

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### Overall finding



46. Overall, we found that the Canadian Tourism Commission had systems and practices in place for its marketing activities to clearly define operational objectives and targets. It was also able to plan, design, implement, and monitor the marketing of Canada in a manner that safeguarded and controlled assets, enabled economical and efficient use of resources, and operated effectively to achieve its mandate of marketing Canada as a desirable tourist destination. However, there were some weaknesses in contracting.

47. This is important because the Commission markets Canada abroad as a desirable tourism destination to fulfill its mandate of sustaining a profitable tourism industry. The Commission uses third-party agreements both to deliver its marketing and sales activities and to raise funds and other contributions for marketing through partnership agreements.

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**Context**

48. The Canadian Tourism Commission is the only organization with the mandate to be Canada’s national marketer internationally. The Commission strives to deliver distinctive marketing and a unified message, known as “Canada’s Tourism Brand,” from which industry and other levels of government involved in tourism (provincial, territorial, and municipal) can benefit.

49. The Commission spends more than \$46 million each year on contracts. It also establishes partnership agreements that bring additional support for the Commission’s marketing and research activities (described in paragraph 15).

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**Marketing activities were planned, delivered, and monitored for results**

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**What we found**

50. We found that marketing activities were planned, delivered, and monitored against expected results. The marketing plans were aligned with the Commission’s strategic plan, and had clear objectives and targets for expected results. The Commission used a return-on-investment analysis to allocate funds to its selected international markets. It also used analytic tools to allocate resources within each market to the most effective channels for communicating and engaging with consumers. Operational plans and activities included a documented rationale for decisions and expected results.

51. Our analysis supporting this finding is presented in paragraph 55 and discusses [marketing management](#).

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**Why this finding matters**

52. This finding matters because marketing and sales activities should be aligned with the Commission’s mandate of sustaining a profitable tourism industry, marketing Canada as a desirable tourist destination, and supporting cooperative relationships and the objectives set in its strategic plans.

53. In addition, this finding represents an important improvement since our 2006 special examination report, which identified a significant deficiency in the accountability for individual marketing projects.

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**Recommendation**

54. We made no recommendations in this area of examination.

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**Analysis to support this finding**

55. **Marketing management.** We found that the Commission had in place key processes for its annual marketing planning, activities, and monitoring (Exhibit 4).

## Exhibit 4 Key marketing management processes

Key processes	Findings
Planning	The Commission aligned marketing decisions with strategic direction set annually and approved by the Board.
Past performance	The Commission reviewed last year's performance as input to the current year's plans. The Commission assessed its strengths, weaknesses, opportunities, and threats.
Input	The Commission carried out extensive consultation with key groups, including <ul style="list-style-type: none"> <li>• advisory committees;</li> <li>• the public, through town hall meetings;</li> <li>• federal departments involved with the Federal Tourism Strategy;</li> <li>• the Federal Deputy Ministers' Forum;</li> <li>• heads of provincial tourism organizations; and</li> <li>• the Tourism Industry Association of Canada (TIAC).</li> </ul>
Allocation of resources	The Commission used analytic models to support its decisions for allocating funds to tourism markets and to each communication channel within each market. Analysis included risk and return assessments. Return on marketing investment (ROI) was a key factor in decision making. Rationale, amount spent, and expected outcomes for market and activities were documented and tracked.
Communication	A communication package—the Global Marketing Sales and Communication Plan—was distributed and used in each market to establish cooperative marketing partnerships each year.
Delivery of marketing and sales activities	Marketing campaigns were implemented in each foreign tourism market, and the Commission delivered other support activities to market Canada. The Commission managed contracts to deliver activities.
Monitoring results	Management monitored budgets quarterly. The Board reviewed results by market periodically during the year. Management surveyed partners' satisfaction every two years. Other forms of marketing surveys took place after the campaign to provide a perspective on the Commission's marketing relevance. Survey results were used in the Commission's strategic planning for the next year.

## Procurement and contracting practices were in place, with some weaknesses

### What we found

56. We found that procurement and contracting practices were in place; however, there were some weaknesses. The Commission's procurement and contracting practices included tracking contract performance to ensure the proper use of funds and delivery of expected results. The Commission also used competitive procurement practices to select new

general sales agents (GSAs) for multi-year contracts. There were also policies and procedures to follow when establishing partnership agreements. However, there were some weaknesses in certain partnership agreements, and the appropriate use of memoranda of understanding (MOUs) needed to be clarified.

57. Our analysis supporting this finding is presented in paragraphs 60 to 65 and discusses three types of contracting arrangements:

- [general procurement and contracting](#),
- [memoranda of understanding](#) (MOUs), and
- [partnership agreements](#).

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**Why this finding matters**

58. The Commission performs most of its work through numerous contracts, MOUs, and partnership agreements. It needs to manage these third-party arrangements to achieve the results expected and use resources economically. It is important that staff understand when to use the MOU form of agreement. In addition, staff and the general sales agents in foreign countries need to have clear direction and understand procedures to establish and document partnership relationships in order to ensure consistency across the global markets.

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**Recommendation**

59. Our recommendation on the use of memoranda of understanding and partnership agreements appears in paragraph 66.

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**Analysis to support this finding**

60. We looked at the systems and practices in place to manage the three types of contracting arrangements used by the Commission. In addition, we selected a small sample of each type of arrangement for our review to see examples of how the Commission followed its policies and procedures.

61. **General procurement and contracting.** The Commission managed 156 contracts in 2013. We reviewed the systems and practices in place, including the selection processes for two GSA contracts in 2014. In addition, we selected a sample of five of the general contracts and one GSA contract already in place.

62. We found the following management practices in place for these third-party arrangements:

- updated procurement policy and procedures;
- training on procurement provided across the organization;
- competitive processes required for contracts over \$25,000 and for the selection of the general sales agents;
- reporting to the Audit and Pension Committee of non-competitive contracts with a value of \$50,000 or more that are not exceptions;

- signing authority documented and complied with;
- centralized expertise and oversight for most types of contracting;
- tracking of terms and conditions of contracts to determine if third-party arrangements met the requirements of the contracts;
- review and testing of contracting by Internal Audit twice in the past three years, resulting in corrective action by management; and
- quarterly internal monitoring of a sample of contracts performed by management to test compliance with policies, with results presented to the Audit and Pension Committee.

63. **Memoranda of understanding.** We examined the eight MOUs in place in order to review the purpose for using an MOU in each instance. While the MOU is a documented agreement, it is not legally binding. While most of the Commission's MOUs reflected an agreement for collaboration on specific projects, two of the MOUs included financial commitments. In the event of a disagreement, the Commission could not force the payment of the commitment defined in the MOU. Using an MOU where there are financial commitments could put the Commission at risk.

64. **Partnership agreements.** In 2013, the Commission used more than 800 of these agreements with more than 1,400 partners for both marketing and research activities. Partners included provincial, territorial, and municipal governments, marketing organizations for specific regions or destinations, and tourism businesses. We selected a sample of six agreements to see examples of the partnership agreements.

65. In our sample, we found a weakness: signatures of approval were obtained after the start of the agreement. In addition, the Commission recently became aware of gaps in the use of partnership agreements in one foreign office. For example, there were gaps in the completeness of the information included in some agreements that, in turn, affected transparency. The Commission's management addressed this finding in late 2014 by developing a corrective action plan that was reviewed by the Audit and Pension Committee. The action plan included steps to improve the consistency and completeness of partnership agreements across the Commission, as well as to improve communication and training for all offices and general sales agents globally. The Commission also plans to streamline responsibilities at head office for overseeing these agreements.

66. **Recommendation.** The Canadian Tourism Commission should ensure the appropriate and consistent use of memoranda of understanding. In addition, it should take steps to improve partnership agreements.

*The Commission's response.* Agreed. All future memoranda of understanding will be reviewed by the Canadian Tourism Commission's Legal Unit to improve consistency in the use of MOUs. Agreements with financial commitments will be captured in a formal contract.

*To strengthen current partnership agreement practices, management will review the partnership policy and processes and delegate accountability of all partnerships to one Canadian Tourism Commission unit. Clear procedures and monitoring will be developed, and training will be provided to all staff and general sales agents. Partnership agreement templates—terms and conditions—will be reviewed and provided to the teams.*

## Tourism research

Tourism research was planned, delivered, and monitored for results

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### Overall finding



67. Overall, we found that the Canadian Tourism Commission had systems and practices in place for its tourism research operations to clearly define operational objectives and targets. It was also able to plan, design, implement, and monitor operations in a manner that safeguarded and controlled assets, enabled economical and efficient use of resources, and operated effectively to achieve its mandate of providing information about tourism in Canada to the private sector and to the governments of Canada, the provinces, and the territories.

68. This is important because many parties, including the Commission, rely on the information and insight from its tourism research to make important business decisions. To fulfill its mandate, the Commission must ensure its research remains relevant to a changing industry and to government's needs. Its products must be reliable and up to date on emerging topics and practices.

69. Our analysis supporting this finding is presented in paragraphs 72 to 75 and discusses

- [aligning research with the Commission's strategic plan](#),
- [quality assurance](#),
- [communicating research results and assessing user feedback](#), and
- [volume of research requests](#).

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### Context

70. The Commission delivers a wide variety and large volume of tourism statistics, research, and tools. For example, it offers

- international macroeconomic data on tourism in 12 markets, including economic and market highlights;
- analysis of key economic and political factors that affect the tourism industry;

- consumer information, such as who is travelling to Canada and when, their activities, and the amount they spend; and
- forward-looking information to support business decisions, such as international travel forecasts for overnight trips and receipts, and predictions on economic factors, price competitiveness, and air capacity in the upcoming travel season.

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**Recommendation**

71. We made no recommendations in this area of examination.

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**Analysis to support this finding**

72. **Aligning research with the Commission’s strategic plan.**

The Research unit defined goals and objectives, operational directions, and specific performance measures, all aligned with the Commission’s overall strategic plan. A Research Advisory Committee provided strategic advice to the Board twice a year.

73. **Quality assurance.** The Commission identified the competencies and experience it needed to fulfill its research mandate. The Commission conducted its work using both staff members and third parties who met the competency requirements. Systems were in place to ensure the quality of data, analysis, and reporting.

74. **Communicating research results and assessing user feedback.**

The Research unit circulated research results to stakeholders through various means, including the Commission’s website and face-to-face meetings with members of the Commission’s executive team. The Research unit used external and internal surveys to assess user satisfaction with its products and services, and the results from the surveys were reported in the 2013 Annual Report.

75. **Volume of research requests.** The Commission had a small team of researchers, and the demands on the team were challenging its capacity to deliver. The team was expected to react to a large volume of ad hoc requests for information while also providing core research and tools to both industry and government. The Commission identified this issue and was monitoring it closely. It is taking action to balance the demand with the allocated resources so that the Commission can continue to deliver on this aspect of its overall mandate.

## Human resource management

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**Overall finding**



76. Overall, we found that human resources were managed in a manner that provided the Canadian Tourism Commission with the human resource capacity and the work environment it needed to achieve its goals and objectives.

77. This is important because the Commission's success in achieving its mandate depends largely upon having the right people with the right skills. Having an effective framework for managing human resources (HR) enables the Commission to align human resource planning, training and development, compensation, and performance management with the Commission's long-term strategic direction.

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**Context**

78. Cuts to the Commission's budget over the past few years have resulted in reductions in the number of staff. The Commission has gone from 158 full-time equivalents (FTEs) in 2010 to 103.5 FTEs at the end of 2013, with some additional reductions made in late 2014. As part of these staff reductions, over half of the 13 international offices that were in place in 2010 were closed, and in some instances replaced with general sales agents under contract. At the time of our examination, about three quarters of the Commission's staff were in Vancouver and the others were in the international offices.

## Human resource management supported the Commission's needs

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**What we found**

79. We found that the Commission had human resource management processes in place that were aligned with its strategic direction, including HR planning, succession planning, annual compensation reviews, and a performance management system with related staff training and development activities. The Commission had also established a code of ethics for all staff with a required annual confirmation process.

80. Our analysis supporting this finding is presented in paragraph 83 and discusses [human resource management](#).

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**Why this finding matters**

81. Management of the staff of the Canadian Tourism Commission is complex. The Commission is a decentralized organization with offices and staff outside Canada. The Commission has both unionized and non-unionized employees. Hiring, managing, and compensating staff outside Canada, including their pensions, need to be consistent with each country's laws and regulations. In addition, differences in languages and time zones cause other management communication challenges.

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**Recommendation**

82. We made no recommendations in this area of examination.

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**Analysis to support this finding**

83. **Human resource management.** We found that the Commission had in place key elements of human resource management (Exhibit 5).



## Exhibit 5 Key elements of human resource management

Key elements	Findings
HR planning	<p>The HR planning process led to the development of the Commission's HR strategy and was aligned with its strategy.</p> <p>Succession development planning identified key/critical positions and potential successors. It provided, for each person, an analysis of strengths, gaps in skills or experience, and a development plan.</p>
Employee relations	<p>Separate terms and conditions of employment for staff employed in each of the international offices were being updated and communicated.</p> <p>A new collective agreement covering about 50 percent of the Commission's staff was negotiated in 2014.</p> <p>A regular survey was sent to employees to assess and measure employee satisfaction.</p> <p>A survey of staff assessed and measured how the Canadian Tourism Commission demonstrated its core values.</p> <p>Systems and practices supported the reductions in staff.</p>
Ethics and values	<p>A Code of Ethics applied to all employees with an annual confirmation process; training took place.</p> <p>A whistleblowing policy was in place.</p>
Compensation	<p>The compensation strategy was regularly updated and approved by the Board to enable the Commission to recruit and retain the staff it needed.</p> <p>The basis for the salary bands and at-risk pay percentages for management were reviewed regularly and approved by the Board.</p>
Performance management	<p>The Commission's performance management system for employees used a Personal Balanced Scorecard. The scorecard was based on the Commission's scorecard to link an individual's activities and performance measures to broader objectives at the unit and corporate levels. This system ensures that an employee's actions are aligned with the overall strategy.</p> <p>The Commission had a learning and development policy. It identified both corporate and individual training needs. Individual training and development were also addressed through the Personal Balanced Scorecard.</p>
IT system	<p>An information technology system supported the management of the Commission's human resources.</p>

### The Commission took steps to manage the increase in contributions needed for some of its pension plans

#### What we found

84. We found that the Commission took steps to manage the increase in contributions needed for some of its pension plans. It was also in the process of developing a more formal view of its risks and the controls needed to manage them.

85. Our analysis supporting this finding is presented in paragraphs 88 and 89 and discusses [pension management](#).

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**Why this finding matters**

86. The Commission managed six different types of pension plans—three for Canadian employees and three for foreign staff. Over the past few years, the Canadian Tourism Commission had to increase its contributions for two of the six plans. As a result, the Commission had to pay approximately \$1.5 million each year out of its annual appropriations for 2013 and 2014. This was challenging because the Commission had its funding cut to \$58 million in 2014.

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**Recommendation**

87. We made no recommendations in this area of examination.

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**Analysis to support this finding**

88. **Pension management.** Pension plan management is the responsibility of the Audit and Pension Committee of the Board. Where needed, Commission management and this Committee used external expertise for advice on managing the pensions and investments. The Canadian Tourism Commission's management and the Audit and Pension Committee investigated ways to manage the required increase in contributions and assessed the impact of various options on the budgets. Because of the importance of this issue, the information was reported to the Board.

89. The Commission used an external actuarial firm to manage the funds. At the time of our examination, the firm was helping the Commission document the key risks to the pension plans and identify the controls needed to mitigate the risks. This advice will help the Commission improve its pension management. Given the complexities of managing multiple pension plans and the impact of the increased contributions on the Commission's operating budget over the past two years, we encourage the Commission to complete this work.

## Conclusion

90. We concluded that based on the criteria established, there is reasonable assurance that during the period covered by the examination, there were no significant deficiencies in the Canadian Tourism Commission's systems and practices that we selected for examination. The Commission has maintained these systems and practices in a manner that provides it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

# About the Audit

All of the audit work in this report was conducted in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the CPA Canada Handbook—Assurance. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

As part of our regular audit process, we obtained management's confirmation that the findings reported in this report are factually based.

## Objective

Under section 138 of the *Financial Administration Act* (FAA), federal Crown corporations are subject to a special examination once every 10 years. Special examinations of Crown corporations are a form of performance audit where the scope is set by the FAA.

The Auditor General provides an opinion on the corporation's systems and practices examined. Special examinations answer the question: Do the Corporation's systems and practices provide reasonable assurance that assets are safeguarded and controlled, resources are managed economically and efficiently, and operations are carried out effectively?

A significant deficiency is reported when there is a major weakness in the Corporation's key systems and practices that could prevent it from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed efficiently and economically, and its operations are carried out effectively. The opinion for this special examination is found on page 1 of this report.

## Scope and approach

The scope of our audit was the Canadian Tourism Commission, a federal Crown corporation. We examined selected systems and practices, including those related to its foreign offices. In performing our work, we reviewed documents and interviewed the senior management team, other key members of the Commission, and the Chair of the Board of Directors and the Audit and Pension Committee. A small sample of contracts was selected as part of our review of the systems and practices in place for specific types of procurement and contracting at the Commission. Some members of the audit team had visited two of the international offices in 2013 and 2014. In addition, the Principal observed a Board of Directors meeting held during the period under examination. Interviews were also held with a small selection of key stakeholders, and information about stakeholders was reviewed.

## Systems and practices examined and criteria

At the start of this special examination, we presented the Commission's Audit and Pension Committee with an audit plan that identified the systems and practices, and related criteria, that we considered essential to providing the Commission with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. The systems and practices we examined and the criteria that we used for our special examination are presented in the following table.

The criteria for this examination were selected in consultation with the Commission. They were based on our experience with performance auditing—in particular, with our special examinations of Crown corporations—and on our knowledge of the subject matter. Management reviewed and accepted the suitability of the criteria used in the special examination.

Systems and practices examined	Criteria
<p><b>Corporate governance</b></p> <ul style="list-style-type: none"> <li>• Board oversight processes, including interpretation of mandate, strategic direction, risk management, fraud prevention, executive and Board travel and hospitality, and information for decision making</li> <li>• The functioning of the Board and its committees, including roles and responsibilities, governance structure, and evaluation of performance</li> <li>• Processes regarding ethics and values</li> <li>• Board composition and appointment processes, including succession planning</li> <li>• Board orientation and training processes</li> <li>• Board and management communication processes and relationships with the Minister, Federal Tourism Strategy, Small Business, Tourism and Marketplace Services Sector of Industry Canada, other federal government departments, key marketing stakeholders, key government, industry, and media stakeholders, and the public</li> <li>• Board's oversight and communication practices in the context of an interim CEO</li> </ul>	<p>To maximize the Commission's effectiveness and its ability to balance public policy objectives with its commercial objectives, the Commission should have a well-performing corporate governance framework that meets the expectations of sound practices in Board stewardship, shareholder relations, and communication with the public.</p>
<p><b>Strategic planning, performance measurement, and risk management</b></p> <ul style="list-style-type: none"> <li>• Corporate strategic planning processes involving management and the Board</li> <li>• Consultations to support collaboration and alignment across the private sector, industry, government, provinces, and territories and the role of the five Canadian Tourism Commission advisory committees</li> <li>• Alignment with operational plans</li> <li>• Risk management processes for the enterprise and all of its operations</li> <li>• Performance measurement and reporting processes</li> </ul>	<p>The Commission has clearly defined strategic direction and specific and measurable goals and objectives to achieve its legislative, commercial, and public policy mandate. Its strategic direction and goals take into account government priorities, identified risks, and the need to control and protect its assets and manage its resources economically and efficiently.</p> <p>The Commission has identified performance indicators to measure the achievement of its mandate and statutory objectives.</p>

Systems and practices examined	Criteria
<p><b>Marketing activities</b></p> <ul style="list-style-type: none"> <li>• Operational planning processes, including use of measures and targets</li> <li>• Ongoing communications and relationship practices with stakeholders</li> <li>• Procurement and contracting processes (contracts, MOUs, and partnership agreements)</li> <li>• Performance measurement processes, results, and assessments of marketing program delivery</li> <li>• Travel and hospitality policies and procedures</li> <li>• Information technology service delivery</li> </ul>	<p>The Commission has systems and practices in place for its marketing activities to clearly define operational objectives and targets; and to plan, design, implement, and monitor marketing in a manner that safeguards and controls assets, enables economical and efficient use of resources, and operates effectively to achieve its mandate.</p>
<p><b>Tourism research</b></p> <ul style="list-style-type: none"> <li>• Operational planning processes, including use of measures and targets</li> <li>• Ongoing communications and relationship practices with stakeholders</li> <li>• Internal quality control process for research activities (data collection, methodology analysis, reports)</li> <li>• Performance measurement processes, results, and assessments of research program delivery</li> <li>• Travel and hospitality policies and procedures</li> <li>• Information technology service delivery</li> </ul>	<p>The Commission has systems and practices in place for its research function to clearly define operational objectives and targets; and to plan, design, implement, and monitor research in a manner that safeguards and controls assets, enables economical and efficient use of resources, and operates effectively to achieve its mandate.</p>
<p><b>Human resource management</b></p> <ul style="list-style-type: none"> <li>• HR planning processes</li> <li>• Compensation practices, including pension management, and processes to determine executive compensation</li> <li>• Ethics and values practices (to mitigate fraud)</li> <li>• Management practices in foreign offices, including performance management</li> <li>• Staffing and recruiting processes</li> </ul>	<p>Human resources are managed in a manner that provides the Commission with the human resource capacity and the work environment it needs to achieve its goals and objectives.</p>

### Period covered by the audit

The special examination covered the systems and practices that were in place between April 2014 and November 2014. However, to gain a more complete understanding of the significant systems and practices, we also examined certain matters that preceded the starting date of the special examination, including the sample of contracts selected that were in place in 2013 and the management of the funds for pensions.

## Internal audit

In carrying out the special examination, we did not rely on any internal audits.

## Audit team

Assistant Auditor General: Terrance DeJong

Principal: Mary Riopelle

Lead Director: Gregory Cebry

Director: Patrick Polan

Shari Laszlo

Meghan Lee

# List of Recommendations

The following is a list of recommendations found in this report. The number in front of the recommendation indicates the paragraph where it appears in the report. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
<b>Strategic planning, performance measurement, and risk management</b>	
<p><b>45.</b> The Canadian Tourism Commission should add a formal fraud risk assessment to its Enterprise Risk Management processes. <b>(39–44)</b></p>	<p><b>The Commission’s response.</b> Agreed. Management will incorporate a formal fraud risk assessment in its next Enterprise Risk Management process, planned for the second quarter of 2015. Management will also use the findings and recommendations from internal audit work performed in its global operations to help inform this assessment.</p>
<b>Marketing activities</b>	
<p><b>66.</b> The Canadian Tourism Commission should ensure the appropriate and consistent use of memoranda of understanding. In addition, it should take steps to improve partnership agreements. <b>(56–65)</b></p>	<p><b>The Commission’s response.</b> Agreed. All future memoranda of understanding will be reviewed by the Canadian Tourism Commission’s Legal Unit to improve consistency in the use of MOUs. Agreements with financial commitments will be captured in a formal contract.</p> <p>To strengthen current partnership agreement practices, management will review the partnership policy and processes and delegate accountability of all partnerships to one Canadian Tourism Commission unit. Clear procedures and monitoring will be developed, and training will be provided to all staff and general sales agents. Partnership agreement templates—terms and conditions—will be reviewed and provided to the teams.</p>

