

SECTION FIFTEEN

**DETAILED FINDINGS—
VICKERS & BENSON****15.1****Business Background**

Vickers & Benson was first established as an advertising agency in Canada in 1924. Mr. John Hayter, in 1990, became the President, CEO, and controlling shareholder of Vickers & Benson Companies Limited ("Vickers & Benson"). The percentage ownership Vickers & Benson held in other companies is noted in the Corporate Organization charts produced as Exhibit P-412 pages I-4.

In March 2000, the assets of Vickers & Benson were sold to a new corporation, NEWCO VB Inc. which amalgamated with Vickers & Benson Inc., to form a company now called Arnold Worldwide Canada Inc. This company is owned 100% by Havas, a French public company.

Vickers & Benson's major clients in the early 1990s included Bank of Montréal, Cantel, CFTO-TV, Ford, M&M Meats, McDonald's, MTCVA, Miles Laboratories, Molson, Ontario Hydro, Ontario Jockey Club, Ortho, Quaker, and 3M.

15.2

GOC Selection Process

Table 108 lists the known agency selection competitions where Vickers & Benson qualified as the winning agency.

Table 108: Vickers & Benson Agency Selection Competitions

| Department | Date of Final Report | Winning Agency |
|--|-----------------------------|--|
| Tourism | Sept. 19, 1994 | Vickers & Benson |
| Heritage Canada | February 8, 1995 | Groupe Everest; BCP Canada; Compass Communications; Palmer Jarvis Communications; Vickers & Benson |
| Finance – Canada Savings | August 8, 1995 | Consortium of Vickers & Benson and Groupe Everest |
| Retail Debt Agency – Canada Savings | May 22, 1996 | Vickers & Benson |
| Human Resources Development Canada | October 5, 1998 | LBJ-FRB Communications Inc and Vickers & Benson |
| Canada Information Office | September 1, 2000 | Allard and Johnson Communications Inc.; Armada; Groupe Everest; Ensemble Consortium (made up of Groupaction, Vickers & Benson, Focus, Compass Communications and Coffin) |
| Finance Canada – Canada Investment and Savings | June 4, 2001 | Publicite Martin Inc. and Vickers & Benson |

15.3

Contracts with GOC

15.3.1 SPS Contracts

As identified in Schedule 3, between July 8, 1996 and April 1, 1999, Vickers & Benson entered into ten SPS contracts with PWGSC/APORS/CCSB, totaling \$15,362,215.

The contracts for the China Series - Canada Coast to Coast ("China Series") account for five of the ten contracts and totaled \$8,848,040.

The contract for Budget '99 included \$3,400,000 for media placement and totaled \$4,350,000.

Table 109: Vickers & Benson SPS Contracts

| <u>Year</u> | <u>Contracts with Vickers & Benson Communications</u> | <u>Directions with Média/I.D.A. Vision</u> | <u>Total</u> |
|--------------|---|--|----------------------------|
| 1996-97 | 3,555,640 | - | 3,555,640 |
| 1997-98 | 2,642,400 | - | 2,642,400 |
| 1998-99 | 2,764,175 | 3,400,000 | 6,164,175 |
| 1999-00 | <u>3,000,000</u> | <u>-</u> | <u>3,000,000</u> |
| Total | <u>\$11,962,215</u> | <u>\$3,400,000</u> | <u>\$15,362,215</u> |

15.3.2 Advertising Contracts

As identified in Schedule 10, between April 1, 1994 and March 31, 2003, Vickers & Benson was the communications agency for numerous advertising contracts for which PWGSC - APORS/CCSB was the contract authority. The total contract value for the contracts in question was \$277,570,801. This listing includes Directions issued to Média/I.D.A. Vision for media purchases totaling \$91,235,926.

**Table 110: Advertising Contracts for which
Vickers & Benson was the Communication Agency**

| | <u>Contracts for Media Purchases</u> | <u>Contracts for Work by Agency</u> | <u>Total</u> |
|--|--|---|-----------------------------|
| Transport Canada | 0 | 325,000 | 325,000 |
| Public Works & Government Services Canada | 0 | 113,551 | 113,551 |
| Industry Canada | 1,424,247 | 35,049,092 | 36,473,339 |
| Human Resources Development Canada | 9,280,136 | 3,546,428 | 12,826,564 |
| Health Canada | 234,000 | 16,000 | 250,000 |
| Foreign Affairs & International Trade Canada | 0 | 150,000 | 150,000 |
| Finance Canada | 49,742,290 | 23,375,604 | 73,117,894 |
| Communication Canada | 0 | 34,200 | 34,200 |
| Canadian Tourism Commission | 30,555,253 | 123,425,000 | 153,980,253 |
| Agriculture and Agri-Food Canada | <u>0</u> | <u>300,000</u> | <u>300,000</u> |
| | <u>\$91,235,926</u> | <u>\$186,334,875</u> | <u>\$277,570,801</u> |

15.4

Management of Contracts

15.4.1 China Series - "Canada Coast to Coast" - \$10 million

Our review of the SPS contracts relating to the China Series disclosed a total of five PWGSC contracts beginning in July 1996 and ending in April 1999 for a total contract value of \$8,848,000. In addition, our review disclosed seven other contracts related to the China Series funded by other GOC departments with contract values of \$850,000 and one agreement funded by Aerospace Training Canada International totaling \$278,972.

Exhibit P-415, page 2 to this report lists the known contracts for the China Series, which total \$9,977,012.

The China Series encompassed 26 one-half hour episodes to be broadcast multiple times on China Central Television (CCTV). The programs used a cross-Canada trip as a backdrop to teach English to a Chinese audience, estimated to be more than 60 million viewers. The Canadian sites featured Canadian technology, infrastructure and culture. The host of each episode was Mr. Mark Rosewell, known in China as "Dashan", a star of Chinese television. The series was supported by one million copies of a companion English language booklet.

Our analysis of the funding for SPS contracts identified that a total of \$4.1 million was provided directly from the Unity Reserve for the China Series. Schedule 27 provides further information concerning this amount.

As noted, the China Series contracts totaled \$9,977,012, including contract EN771-6-0188 in the amount of \$1,400,640¹, resulting in an average cost to the GOC for each of the 26 episodes of \$383,731.

¹ Mr. Hayter, in his response to the COI subpoena, provided summary accounting schedules which excluded contract EN771-6-0188.

The "Requirements and Scope of Work" section of contract EN771-6-0188 states this contract is "in support of its 'Central China Television Series' Advertising Program." Appendix B to the contract describes this contract as,

"Proposal for the Promotion, Development, Production and Branding of the Government of Canada in 'Dashan and Friends' Central China Television Series."

Appendix B to the contract provides an estimate of \$1,400,640 for the anticipated work which includes the following items:

| | <u>Estimate</u> |
|---|--------------------|
| 1. Promotional event at the CCBC AGM in Shanghai – estimate | \$32,000 |
| 2. Production of Canadian Promotions in Companion Booklets to the CCTV Series – estimate | \$153,875 |
| 3. GOC Branding on all CCTV Series Episodes (13) – estimate | \$172,250 |
| 4. Production of Seven In-Canada Special "Canada in the Global Economy" segments – estimate | \$788,015 |
| 5. English Language Training Lesson Plans – estimate | <u>\$254,500</u> |
| Total | <u>\$1,400,640</u> |

The average cost to the GOC for each of the 26 episodes excluding contract EN771-6-0188 would be \$329,860.

Kroll has reviewed the five PWGSC contracts relating to this China Series and we note that one of the five, contract EN771-7-0017 dated April 1st, 1997, stipulates in Annex A under the "Basis of Payment" heading that,

" The Contractor shall be paid a firm all inclusive lot price of \$1,597,400 (GST extra if applicable) for the services as detailed herein provided to the Project Authority, Ottawa, Ontario based on the following per episode cost of:

| | |
|---|--------------|
| Producer: 10 days @ 2,250/day = | \$22,500 |
| Director: 10 days @ \$1,850/day = | \$18,500 |
| ESL Linguistic Coordinator: 12 days @ \$1,850/day = | \$22,200 |
| Production Coordinator: 46 days @ \$1,500/day = | \$69,000 |
| Camera Crew: 5 days @ \$7,500/day = | \$37,500 |
| In-Studio Production: 4 days @ \$6,500/day = | \$26,000 |
| Graphic Studio Designer: 10 days @ \$1,500/day = | \$15,000 |
| Producer and Crew Travel and On-Location Expense: 5 days = | \$17,500 |
| Subtotal | \$228,200 |
| Full Second Flight Costs @ 228,200 each, times 7 episodes | |
| Total | \$1,597,400" |

The other four PWGSC contracts under the "Basis of Payment" heading refer to Appendix "A" of the contract which provides the "Basis of Payment" is to be determined as follows:

"A. In-House Production, which includes "creative services, "art direction services", "writing services", based on "firm hourly rates...multiplied by the number of hours of services necessary."

B. Cost Reimbursable Charges

B.1.2. For sub-contracts less than \$30,000 GST included or for TV Production,

" The contractor will be reimbursed for any actual expenditures reasonably and properly incurred to acquire goods and services from outside suppliers at the suppliers price, net of an trade or prompt payment discounts, plus 17.65% thereon by way of overhead and profit."

Vickers & Benson invoiced PWGSC \$8,848,000 for the five contracts, all, in effect, as fixed price "all inclusive" contracts. Vickers & Benson did not submit any supporting invoices from subcontractors to PWGSC or any invoices which particularized hours worked by Vickers & Benson employees

on this project.

Pursuant to the COI subpoena, Vickers & Benson provided supplier invoices relating to this China Series totaling \$4.3 million in support of a listing of expenses totaling \$4.7 million.

In addition, Vickers & Benson provided a recently prepared estimate of hours spent by Mr. Hayter and other Vickers & Benson employees on this project between 1993 and 1999. Based on this estimate of hours worked and a calculation of an hourly rate based on salaries paid to the persons involved, and including an additional charge to cover office "overhead" based on 95% of the calculated labour rate, Vickers & Benson estimated it incurred "In-house Production Labour" costs of \$1.8 million and "Project Management" costs of \$2.3 million for total In-house costs of \$4.1 million. The cost for Mr. Hayter included in this amount was \$627,000, based on an estimate of 1,900 hours at a cost per hour of \$330. Based on this costing approach, Vickers & Benson estimated it made a profit on the China Series including contract EN771-6-0188 of \$1.2 million or 12% of gross billings.

We note that the last two PWGSC contracts, EN771-8-0098 dated January 15, 1999 and EP043-9-0048 dated April 1, 1999 related to the second set of 13 episodes and totaled \$4,500,000 or \$346,154 per episode. We did not identify any information in PWGSC file on Vickers & Benson file concerning how these amounts were determined.

15.4.2 Budget '99 - \$4,350,000

This contract was funded from monies allocated for SPS contracts but relates to an advertising campaign for the 1999 Federal Budget.

15.4.3 Advertising

Kroll reviewed the invoices and underlying supporting documentation for a sample of Vickers & Benson advertising contracts as noted below:

Table 111: Vickers & Benson Advertising Contracts Reviewed by Kroll

| | | | |
|--------------|---------|----------------------|---------------------|
| U1740-6-0002 | Tourism | Asia Pacific | \$ 5,360,000 |
| U1710-6-0081 | Tourism | Asia Pacific | 7,148,000 |
| 60074-8-0259 | Finance | "98/99" various | 3,000,000 |
| V8009-8-0023 | HRDC | ISP Information | 50,000 |
| V8009-9-0023 | HRDC | ISP Information | 274,000 |
| U1710-6-0388 | Tourism | U.S. Leisure Program | <u>6,000,000</u> |
| | | | <u>\$21,832,000</u> |

Our review of these files found that Vickers & Benson billed the department for agency time charges based on estimates approved by the department and not actual hours incurred at the hourly rates stipulated in the contracts.

15.5

Financial Impact of Advertising and SPS Contracts on Results of Vickers & Benson

15.5.1 GOC Revenue Compared to Other Revenue

As noted in Exhibit P-412 page 210, between 1996 and 2003, Vickers & Benson's GOC revenues from both SPS contracts and Advertising contracts, in total accounted for between 20% and 34% of total revenue, or an average of 23% during that 8-year period.

15.6

Notable Uses of Funds by Vickers & Benson

15.6.1 Salaries and Management Bonuses

Exhibit P-412 pages 9(B) and 10 identify the management and employee bonuses paid between 1994 and 2003.

15.6.2 Payments to Oro Consulting

Exhibit P-414, pages 5 and 6, lists payments made by PacCanUs Inc., the corporate entity which owns 100% of Vickers and Benson, to Oro Consulting between April 2000 and April 2002. The payments total \$371,600 for consulting fees and a total of \$29,795 for expenses.

15.6.3 Payments to Political Parties

Exhibit P-412 page 232 details the payments made to the Liberal Party of Canada as recorded in the books and records of Vickers & Benson and as reported by Elections Canada for Vickers & Benson Advertising Ltd., Genesis Media Inc., John Hayter, Southside Digital Communications, Warwick and Associates and PacCanUs.

