

SECTION EIGHT

**DETAILED FINDINGS—
LAFLEUR****8.1****Business Background****8.1.1 Lafleur Communication**

On June 15, 1984, Mr. J. Lafleur became the sole shareholder, director and president of Jean Lafleur Communication Marketing Inc. ("Lafleur Communication"). On July 22, 1987, the shares owned by Mr. J. Lafleur were transferred to I57146 Canada Inc., Mr. J. Lafleur's holding company.

From 1984 to 1992, the level of business had ranged from a low of \$324,000 in 1985 to a peak of \$1.7 million in 1991. The average from 1987 to 1992 was approximately \$1.3 million per year.

During its fiscal years ended December 31, 1993 and 1994, the company realized a sales volume of approximately \$1.1 million per year. Its clients were from both the private sector and from the public sector.

From June 1984 until January 2001, Mr. J. Lafleur was the president of Lafleur Communication.

On January 17, 2001, 157146 Canada Inc. sold all the shares it held in Lafleur Communication to Communications Groupdirect Inc., a company owned indirectly by Mr. Jean Brault. The transaction was effective as at January 1, 2001. This transaction is detailed in Section 8.7 of this report.

8.1.2 Other Affiliated Companies

157146 Canada Inc. was (or became) the only shareholder of:

- a) Les Éditions Satellite Inc. ("Satellite"), a company incorporated on May 2, 1997 to publish VIA Magazine;
- b) 3440222 Canada Inc., a company incorporated on December 1, 1997 to operate a tennis club; and
- c) GESCOM Inc. ("GESCOM"), a company incorporated on February 26, 1998, to offer communication services.

Mr. J. Lafleur was the president of these companies.

Lafleur Communication was also related to Publicité Dezert Inc., a company incorporated on April 29, 1993 and controlled by Mr. Eric Lafleur, Mr. J. Lafleur's son.

8.2

GOC Selection Process

We are not aware of any selection competition where Lafleur was asked to make a final presentation as an individual agency. The Table below sets out the known agency selection competitions where Lafleur was a member of

the winning consortium. A full listing of all known agency selection competitions has been compiled and produced as Exhibits P-4I6(A) and P-4I6(B).

Table 51: Lafleur Agency Selection Competitions

Final Report Date	Department	Winning Agency or Consortium
December 14, 1994	Health Canada	Consortium Lafleur (Compass, Warwick and Associates and Palmer Jarvis)
June 30, 1995	PWGSC	Consortium Lafleur (Compass, Natcom, Freeman Rogers Battaglia, SKS)
August 22, 1995	Finance	Consortium, Compass, Freeman Rogers Battaglia, Lafleur
December 5, 1995	Justice	Consortium Lafleur (agencies participating in the consortium are not known)

On June 30, 1995 the selection committee for PWGSC issued its report recommending that the Lafleur Consortium be selected as the communication agency for PWGSC. However, we note that the first SPS contract awarded to Lafleur Communication is dated April 10, 1995 and a total of \$2.49 million of SPS contracts were awarded to Lafleur Communication prior to June 30. A listing of these contracts is included at Schedule 2.

Our review of the invoices related to these contracts indicate that Lafleur Communication started working on various sponsorship projects, including *Classique de Blainville*, *Grand Prix de Montréal (Formula I)*, *Expos de Montréal*, *Tour de l'Île* and *Molson Indy Toronto*, before June 30, 1995.

Even though Lafleur Consortium was selected as the communication agency for PWGSC, the contracts were issued to Lafleur Communication. No sponsorship contracts were issued to the Consortium and we found no evidence that any part of the work billed by Lafleur Communication had been carried out by any of the other members of the consortium.

Lafleur Communication was not one of the ten agencies selected on April 28, 1997 to act as PWGSC/APORS communication agencies but continued to receive contracts subsequent to the April 1997 competition.

8.3

Contracts with GOC

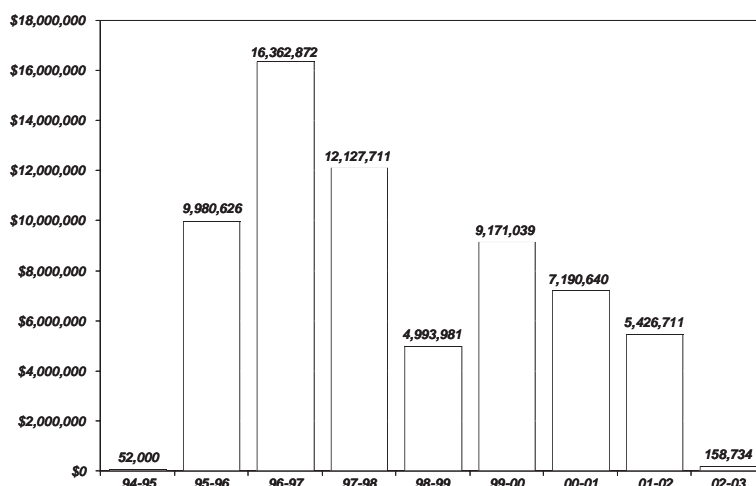
8.3.1 SPS Contracts

Over the 1994-95 to 2002-03 GOC fiscal years, Lafleur Communication was the communication agency for SPS contracts with a total value of \$65.5 million, as detailed in the following Table:

Table 52: Lafleur Communication SPS Contracts

<u>Year</u>	<u>Contracts with Lafleur Communication</u>	<u>Directions with Genesis Media or Média/I.D.A. Vision</u>	<u>Total</u>
1994-95	52,000	-	52,000
1995-96	7,693,626	2,287,000	9,980,626
1996-97	16,362,872	-	16,362,872
1997-98	12,127,711	-	12,127,711
1998-99	2,743,731	2,250,250	4,993,981
1999-00	2,308,189	6,862,850	9,171,039
2000-01	1,829,340	5,361,300	7,190,640
2001-02	94,701	5,332,010	5,426,711
2002-03	<u>3,485</u>	<u>155,249</u>	<u>158,734</u>
Total	<u>\$43,215,655</u>	<u>\$22,248,659</u>	<u>\$65,464,314</u>

Table 52a - Lafleur Communication - Total Value of SPS Contracts



Our review of the underlying contracts indicates that the \$65.5 million was committed to be spent for the following purposes:

Table 53: Kroll Analysis of Selected Lafleur SPS Contracts

	<u>Lafleur Communication</u>	<u>Genesis Media or Média/I.D.A. Vision</u>	<u>Total</u>
Sponsorship:			
1995-96 to 1997-98 ¹	7,776,600	31,450	7,808,050
1998-99 to 2002-03	<u>1,034,250</u>	<u>17,357,964</u>	<u>18,392,214</u>
Total sponsorship	8,810,850	17,389,414	26,200,264
Media Placement	-	1,912,500	1,912,500
AOR Commissions	-	595,066	595,066
Communication Agency Commissions	3,556,146	-	3,556,146
Production Costs and Professional Fees ²	<u>33,200,338</u>	-	<u>33,200,338</u>
Total	<u>\$45,567,334</u>	<u>\$19,896,980</u>	<u>\$65,464,314</u>

¹ This amount is based on the information found in the contracts awarded to Lafleur Communication and is likely understated. Based on Kroll's analysis of Lafleur Communication's invoices to APORS/CCSB, the amount actually received by this agency and repaid to organizers of sponsored events during fiscal year 1996/97 is \$4,749,300, as opposed to \$276,100 per the contracts.

² This amount includes payments to external suppliers and to Publicité Dezert.

Our review also indicates that the total value of the SPS contracts awarded directly to Lafleur Communication for the 1996-97 to 1999-2000 GOC fiscal years was \$42,655,603, of which 99.99% was billed to APORS/CCSB. Detailed findings are in exhibit P-216, page 79.

During the 1995-96 and 1996-97 fiscal years, the total value of the contracts awarded to Lafleur Communication represented 45.4% and 53.1% respectively of the total value of all SPS contracts awarded during these years.

Furthermore, with respect to the list of specific projects included with the TB Submission for \$17,000,000 in November 1996, Lafleur Communication was awarded contracts having a total value \$13.7 million.

8.4

Management of Contracts

8.4.1 General Observations

Billing Practices - Communication Agency 12% Commission

Lafleur Communication billed PWGSC substantial hours against SPS contract production budgets in addition to the 12% agency commission on sponsorship amount.

Table 54 compares amounts billed by Lafleur Communication on an hourly basis on certain contracts to the 12% agency commission for that contract.

Table 54: Comparison of Communication Agency Commission to Agency Time Charges for Selected Contracts

Event	Communication Agency Commission	Agency Time Charges	
		Hours	\$
Encyclopédie du Canada	144,000	1,041.7	57,831
Expos de Montréal	261,216	1,768.3	294,915
Grand Prix du Canada (Formule 1)	232,174	1,008.5	178,348
GRC - 125 ^{ème} anniversaire	62,250	2,425.8	396,354
Internationaux de Tennis Junior de Repentigny	11,490	427.8	76,111
Musée Grande Cascapédia	22,500	71.0	12,775
Série du siècle (Société Canadienne des Postes)	40,500	111.5	23,830
Société du Vieux-Port (Centre ISCI)	<u>180,000</u>	<u>237.5</u>	<u>30,579</u>
Total	<u>\$954,130</u>	<u>7,092.0</u>	<u>\$1,070,742</u>

We note that the contracts do not clearly differentiate between which services are to be covered by the 12% commission and which services can be billed separately on an hourly basis. A detailed list of the contracts relating to the above events is contained in Schedule 17.

8.4.2 Subcontracted Production: Professional Fees

During the period from 1993 to 2000, Lafleur Communication had between 12 to 35 employees on its payroll, including Mr. J. Lafleur and other members of his family: Ms Dyane Lafleur,

Ms. Julie Lafleur and Mr. Eric Lafleur, Mr. Jean-Philippe Lafleur and Mr. Simon Lafleur.

Professional services were also provided by subcontractors, including Xylo Concept Graphique, a company owned by Pierre Davidson, Yuri Kruk Communications Design, a company owned by Mr. Yuri Kruk, D.L.C. Communications Inc., a company owned by Mr. Daniel Lévesque, and Gosselin Communications, a company owned by Mr. Gilles-André Gosselin.

The amounts billed to APORS/CCSB by Lafleur for sub-contractors were based on the hours charged by the subcontractors at the hourly rates stipulated in Lafleur Communication's contracts.

8.4.3 Gosselin Communications - Bluenose Project

In the case of the Bluenose project, Lafleur Communication subcontracted work to Gosselin Communications in 1996 and 1997. Gosselin Communications had no employees other than Mr. G.A. Gosselin, his wife and his son. Gosselin Communications professional services were provided by subcontractors mainly recruited from CPPC - Centre de placement de professionnels en communication Inc. ("CPPC"), a company owned by Mr. G.A. Gosselin's wife, Mrs. Andrée Côté Gosselin.

CPPC had no employees other than Mrs. A. Côté Gosselin and another person. The company was also using the services of subcontractors.

As an example, Ms Geneviève Proulx was a subcontractor of CPPC assigned to the Bluenose project. As shown in the following Table, she billed CPPC for the time worked on the project at an hourly rate that varied from \$12 to \$17. This rate was marked up by CPPC and by Gosselin Communications to Lafleur Communication which then billed the hours to APORS/CCSB at an hourly rate of \$150, which is the rate stated in the contract for employees qualifying as "Account Supervisor". However, on Lafleur Communication's last invoice, Ms G. Proulx's time is billed at \$125 per hour, which is the rate stated in the contract for employees qualifying as "Clerical Support".

Table 55: Summary of Hourly Charges in Relation to the Bluenose Project

<u>Billed By</u>	<u>Hourly Rate</u>	<u>Invoiced Amount</u>	<u>Mark-Up</u>	
			<u>\$</u>	<u>%</u>
Geneviève Proulx	\$12 to \$17	15,090		
CPPC	\$25 to \$35	29,955	14,865	98.5%
Gosselin	\$60	58,080	28,125	93.9%
Lafleur	\$125 to \$150	138,075	79,995	137.7%

In this example, the rate charged by Lafleur to APORS/CCSB was nine times greater than the amount paid to the subcontractor.

8.4.4 Subcontracted Production: Promotional Items

The purchase of promotional items by Lafleur Communication was subcontracted primarily to Publicité Désert.

The amounts billed by Publicité Désert in connection with these sales, which included an average mark up of 100%, were billed by Lafleur Communication to APORS/CCSB after a further commission of 17.65% was added.

Other suppliers to Lafleur Communication were Satellite for VIA Rail magazine, Yuri Kruk Communications Design Inc.¹, Xylo Concept Graphique and Mirabau Serigraphie.

8.4.5 Xylo Concept Graphique Inc.

Xylo Concept Graphique Inc. ("Xylo") is a company incorporated in 1994 and owned by Pierre Davidson. Xylo was created to manage and execute design, visual and/or artistic creation projects. Mr. P. Davidson, an architect by profession, was the only employee. During the period from 1995 to 1999, various projects were subcontracted to Xylo by Lafleur Communication, Publicité Dezert and Satellite for which Xylo issued invoices totaling \$828,135², \$71,874 and \$73,285, respectively.³

A substantial part of Xylo's work from Lafleur Communication was subcontracted to PluriDesign. Xylo billed Lafleur Communication on a fixed fee basis as agreed with Lafleur. Two examples of Xylo's invoices to Lafleur show that the work sub-contracted to PluriDesign made up 79% and 73% of the amount billed by Xylo to Lafleur Communication.

Lafleur, in turn, in its billing to PWGSG for the work done by Xylo and PluriDesign, marked up the Xylo invoices by 129.5% and 119.1%. Notwithstanding the Xylo invoices did not disclose hours worked by P. Davidson relating to the particular Xylo invoice, Lafleur Communication billed PWGSC for hours purportedly worked by P. Davidson at the rate of \$180, being the rate stipulated in the Lafleur Communications SPS contracts for employees qualifying as Creation Director. We note that on one occasion the rate charged was \$100 per hour.

Tables 56 and 57 provide the details of the two Xylo invoices referred to above.

¹ The amount invoiced by Yuri Kruk Communications Design to Lafleur Communication is approximately \$1,300,000 according to the available accounting records. We note that Yuri Kruk paid \$243,000 to PluriDesign.

² The amount actually invoiced by Xylo to Lafleur Communications, based on Xylo's accounting records, is \$1,385,478.

³ These amounts are based on the available accounting records.

Table 56: GRC - 125ème anniversaire (Contract no. EN771-7-0108)

<u>Billed by</u>	<u>Hours</u>	<u>Hourly rate</u>	<u>Invoiced Amount</u>	<u>%</u>
PluriDesign Canada			<u>60,000</u>	<u>79%</u>
Xylo Concept Graphique			<u>75,570</u>	<u>100%</u>
Lafleur Communication				
P. Davidson hours	474.5	180	85,410	
Maquettes (32x\$2,750)			<u>88,000</u>	
			<u>173,410</u>	<u>229.5%</u>

Table 57: VIA Rail - Logos (Contract EN771-08-0007)

<u>Billed by</u>	<u>Hours</u>	<u>Hourly rate</u>	<u>Invoiced Amount</u>	<u>%</u>
PluriDesign Canada			<u>60,000</u>	<u>73%</u>
Xylo Concept Graphique			<u>82,100</u>	<u>100%</u>
Lafleur Communication				
P. Davidson hours	89	180	16,020	
	209	100	20,900	
Maquettes (52x\$2,750)			<u>143,000</u>	
			<u>179,920</u>	<u>219.1%</u>

8.5

Financial Impact of Advertising and SPS Contracts on Results

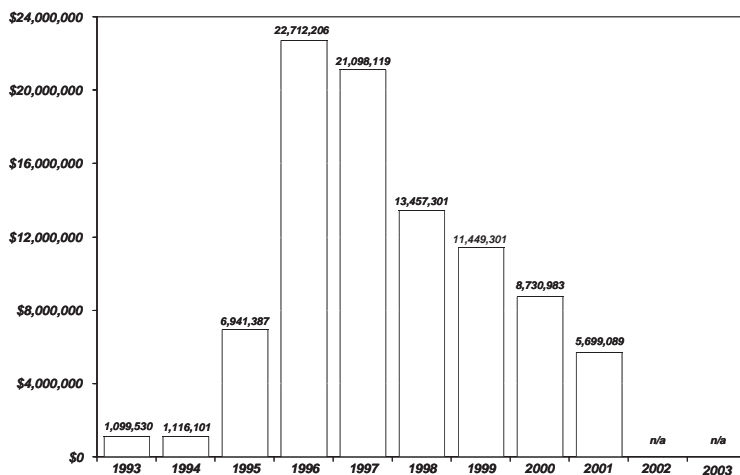
8.5.1 Lafleur Communication

Based on Lafleur Communication's income statement for the years ended December 31, 1993 to 2001, revenues, salaries and bonuses and net income were as follows:

Table 58: Lafleur Communication Revenues, Salaries and Bonuses and Net Income for the Years Ended December 31, 1993 to 2001

<u>Year</u>	<u>Revenues</u>	<u>Salaries and Bonuses</u>	<u>Net Income</u>
1993	1,099,530	245,794	11,027
1994	1,116,101	240,705	85,022
1995	6,941,387	1,469,048	129,660
1996	22,712,206	3,645,187	73,654
1997	21,098,119	3,669,150	(28,046)
1998	13,457,301	3,426,840	133,207
1999	11,449,301	2,319,664	(141,753)
2000	8,730,983	1,867,514	82,636
2001	<u>5,699,089</u>	<u>928,285</u>	<u>(36,686)</u>
Total	<u>\$92,304,017</u>	<u>\$17,812,187</u>	<u>\$308,721</u>

Table 58a - Lafleur Communication - Revenues



As shown in Table 58a, Lafleur Communication's revenue increased significantly after it started receiving contracts from the GOC; from \$1.1 million in revenue in 1993 and 1994 to a high of \$22.7 million in 1996.

Based on Lafleur Communication's accounting records, this agency generated \$66.6¹ million in revenues from the GOC from 1996 to 2001 (the period for which revenue by client data is available), representing 85.9% of the revenues recorded in the accounting system for this period.

8.5.2 Publicité Dezert

Based on Publicité Dezert's statement of income for its financial years ended August 31, 1993 to 2000, revenues, salaries and bonuses and net income were as follows:

Table 59: Publicité Dezert Selected Financial Information for the Years Ended August 31, 1993 to 2001

<u>Year</u>	<u>Revenues</u>	<u>Salaries and Bonuses</u>	<u>Net Income</u>	<u>Dividends</u>
1993	41,413	-	9,655	-
1994	300,838	36,524	(4,607)	20,782
1995	340,501	52,317	12,708	-
1996	1,188,642	30,000	188,203	34,100
1997	3,451,250	720,000	136,461	300,000
1998	1,800,654	58,500	117,991	125,000
1999	1,488,514	170,000	154,259	123,000
2000	1,496,637	82,696	134,400	102,452
2001	<u>334,775</u>	<u>-</u>	<u>21,834</u>	<u>66,334</u>
Total	<u>\$10,443,224</u>	<u>\$1,150,037</u>	<u>\$770,904</u>	<u>\$771,668</u>

As shown in the table above, Publicité Dezert's revenue and net income increased significantly after 1995, which coincides with the period when Lafleur Communication started receiving contracts from the GOC.

¹ This amount includes \$28.6 million of advertising revenues from Crown Corporations.

The salaries of \$1,150,037 were paid for the most part to Mr. Eric Lafleur.

Based on Publicité Dezert's accounting records, this company generated at least \$6.3 million in revenues from Lafleur Communication from 1996 to 2001 (the period for which revenue by client data is available), representing 65% of the revenues recorded in the accounting records for this period. Revenues from Crown Corporations (including VIA Rail and Business Development Bank of Canada) represented another 6.3% of these total revenues.

Publicité Dezert ceased its operations on August 15, 2001.

8.6

Notable Uses of Funds by Lafleur

8.6.1 Salaries and Dividends

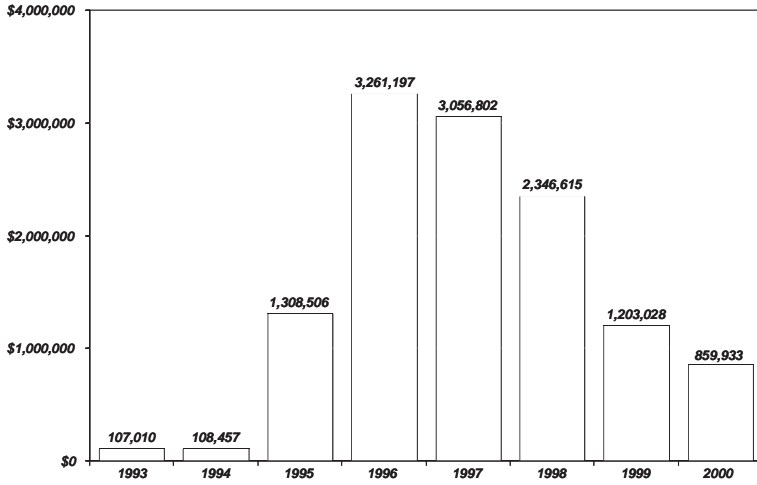
Salaries

Based on their personal tax returns, T4 slips or other information provided to the COI, Mr. J. Lafleur, Ms Dyane Lafleur, Ms Julie Lafleur and Mr. Eric Lafleur received from Lafleur Communication a total of \$12.3 million in salaries between 1993 and 2000, as detailed in the following Tables:

Table 60: Salaries Paid by Lafleur Communication to Mr. Jean Lafleur and Family Members for the Years Ended December 31, 1993 to 2000

<u>Year</u>	<u>Jean Lafleur</u>	<u>Dyane Lafleur</u>	<u>Julie Lafleur</u>	<u>Eric Lafleur</u>	<u>Total</u>
1993	107,010	-	-	-	107,010
1994	108,457	-	-	-	108,457
1995	815,184	241,610	103,751	147,961	1,308,506
1996	2,487,869	254,183	92,051	427,094	3,261,197
1997	2,454,350	161,667	137,995	302,790	3,056,802
1998	1,948,044	254,081	54,740	89,750	2,346,615
1999	871,942	160,396	82,571	88,119	1,203,028
2000	<u>642,884</u>	<u>122,139</u>	<u>-</u>	<u>94,910</u>	<u>859,933</u>
Total	<u>\$9,435,740</u>	<u>\$1,194,076</u>	<u>\$471,108</u>	<u>\$1,150,624</u>	<u>\$12,251,548</u>

Table 60a - Lafleur Communication - Salaries Paid to Jean Lafleur and Family Members



Dividends

Dividends amounting to \$150,000 and \$300,000 respectively were paid by Lafleur Communication to its shareholders during the years ended December 31, 1994 and 1995.

8.6.2 Political Contributions

Lafleur Communication, between 1997 and 2002, donated \$66,850 as set out in Schedule I8 to the Liberal Party of Canada. Members of the Lafleur family donated a further \$8,454 to the Liberal Party.

8.7

The Sale of Lafleur

8.7.1 Sale of Lafleur Communication to Communications Groupdirect Inc.

On January 17, 2001, 157146 Canada Inc. sold all the shares it held in Lafleur Communication to Communications Groupdirect Inc., a company controlled by Mr. J. Brault. The transaction was effective as at January 1, 2001.

The minimum sale price for the shares, as per the sale agreement, was \$1.1 million. This price could be adjusted upward to a maximum of \$3.2 million (clause 4.1 of the agreement). Payments were to be made in three installments. According to Jean Lafleur, a balance is still owing by J. Brault with regards to this transaction.

