

SECTION NINE

**DETAILED FINDINGS—
GOSSELIN****9.1****Business Description**

Gosselin Communications Stratégiques Inc. ("Gosselin Communications") was incorporated by Gilles-André Gosselin as of April 28, 1997 and, on the same day, acquired the net assets of Gosselin et Associés Communications Stratégiques Inc. ("Gosselin & Associés").

Gosselin & Associés, was a small consulting firm incorporated on June 17, 1993 and controlled by Mr. Gilles-André Gosselin. His wife, Mrs. Andrée Côté Gosselin, was also a shareholder and a director.

Gosselin & Associés operated out of Montréal and offered communication consulting services to its clients which were essentially from the public sector, including PWGSC and a few other departments of the GOC.

Gosselin & Associés' revenues were approximately \$250,000 per year. After taking into consideration Mr. G.A. Gosselin's salary and that of his wife, profits left in the firm were nominal.

During the period from April 28 to December 31, 1997, Gosselin Communications had only three employees on its payroll: Mr. G.A. Gosselin, Mrs. A. Côté Gosselin and Mr. Nicolas Gosselin. The company, which started recruiting its own personnel in early 1998, operated until October 1, 1998 when it sold its fixed assets and goodwill to Groupaction.

9.2

Selection Process

On April 28, 1997, Gosselin Communications was among a group of ten agencies selected to act as APORS communication agencies.

During the month of April 1997, Mr. G.A. Gosselin started working on various sponsorship projects, including the Trans Canada Trail project and the Tulip Festival. The contract for these projects was only issued as at April 28, 1997. The first invoices issued by Gosselin Communications to APORS in connection with this contract are dated April 28, 1997. One of these invoices is related to the Tulip Festival. Attached as back up to this invoice are two invoices dated April 1, 1997 in the amount of \$75,000 each from the organizers of the Tulip Festival. The hours charged to the Trans Canada Trail project for work performed in April 1997 were billed to CCSB in January 1998.

We are not aware of any departmental agency selection process other than the 1997 PWGSC selection, in which Gosselin was chosen as the communications agency.

9.3 Contracts with GOC

9.3.1 SPS Contracts

The first SPS contract awarded to Gosselin Communications was contract EN771-7-0027 for an initial amount of \$985,000 subsequently amended to \$1,367,270. The contract, dated April 28, 1997, included several events, in particular the Trans Canada Trail and Tulip Festival events.

Over the 1997-98 and 1998-99 GOC fiscal years, Gosselin Communications was awarded SPS contracts with a total value of \$21.2 million, as detailed in Table 61:

Table 61: Gosselin SPS Contracts

Year	Contracts with Gosselin Communications	Directions with Genesis Media or Média/I.D.A. Vision	Total
1994-95	-	-	-
1995-96	47,500	-	47,500
1996-97	-	-	-
1997-98	6,969,293	97,000	7,066,293
1998-99	<u>6,163,541</u>	<u>7,931,435</u>	<u>14,094,976</u>
Total	<u>\$13,180,334</u>	<u>\$8,028,435</u>	<u>\$21,208,769</u>

Our review indicates that the \$21.2 million was committed to be spent for the following purposes:

Table 62: Kroll Analysis of Selected Gosselin SPS Contracts

	<u>Gosselin Communications</u>	<u>Genesis Media or Média/I.D.A. Vision</u>	<u>Total</u>
Sponsorship:			
1997-98	4,066,095	-	4,066,095
1998-99	<u>342,900</u>	<u>6,896,900</u>	<u>7,239,800</u>
Total sponsorship	4,408,995	6,896,900	11,305,895
Media Placement	-	82,450	82,450
AOR Commissions	-	210,059	210,059
Communication Agency Commissions	1,368,085	-	1,368,085
Production Costs And Professional Fees ¹	<u>8,242,280</u>	<u>-</u>	<u>8,242,280</u>
Total	<u>\$14,019,360</u>	<u>\$7,189,409</u>	<u>\$21,208,769</u>

Our review also indicates that a total amount of \$20,862,272 was billed to APORS/CCSB in relation to these contracts. Detailed findings are contained in Exhibit P-257(a).

9.3.2 Advertising Contracts

During the fiscal year ended March 31, 1998, Gosselin Communications was awarded two advertising contracts for a total value of \$1,500,000.

These advertising contracts are: Privy Council Office - contract 35035-7-5225 for \$300,000; Industry Canada - contract UI020-7-0072 for \$1,200,000.

This latter contract was sub-contracted by Gosselin to Cossette Communication. A net commission of \$76,757 was earned by Gosselin Communications in the process.

Section 7 contains detailed comments on this contract.

¹ This amount includes payments to external suppliers and to CPPC.

9.4 Management of Contracts

9.4.1 General Observations

Table 63 shows that the management fees charged on an hourly basis against the production budgets was four times greater than the amount of the communication agency commission charged by this agency:

Table 63: Gosselin Communications - Comparison of Communication Agency 12% Commissions to Management Fees

Event	Communication Agency		
	Commission	Agency Time Charges	
	(\$)	(Hours)	(\$)
Unforeseen Events	35,322	1,247.0	146,592
Fêtes du 250 ^{ème} de Saint-Hyacinthe	15,000	569.5	53,000
Ottawa Senators	86,917	3,414.3	386,718
Parc des Champs de Bataille	28,200	2,899.8	424,706
Rendez-vous Canada	64,200	3,935.6	442,314
125 ^{ème} anniversaire de la GRC	<u>138,720</u>	<u>804.0</u>	<u>107,495</u>
Total	<u>\$368,359</u>	<u>12,870.0</u>	<u>\$1,560,824</u>

A detailed listing of these contracts is attached as Schedule 19.

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 a hourly basis.

The hours charged by Mr. G.A. Gosselin to APORS/CCSB and Lafleur Communication exceeded 3,600 hours during the GOC fiscal year 1997-98. These hours would be in addition to any hours needed by Mr. G.A. Gosselin to perform work in respect of the 12% commission, and any other tasks required by an owner of an agency.

9.4.2 Subcontracted Production: Professional Fees

During the period from April 27 to December 31, 1997, Gosselin Communications had only three employees on its payroll: Mr. G.A. Gosselin, Mrs. A. Côté Gosselin and Mr. Nicolas Gosselin.

Professional services were provided by subcontractors recruited from placement agencies or directly by Gosselin Communications. The hours charged by these subcontractors for work performed on sponsorship contracts were billed to APORS as if these subcontractors were employees of Gosselin Communications.

The amounts billed to APORS/CCSB were based on the hours charged by the subcontractors and the hourly rates indicated in the Gosselin sponsorship contracts for specific job descriptions.

The primary placement agency to Gosselin Communications was CPPC, a company incorporated on September 10, 1996 and owned by Mr. G.A. Gosselin's wife, Mrs. A. Côté Gosselin.

CPPC had two employees, Mrs. A. Côté Gosselin and one other person. The company was using the services of subcontractors assigned to work on specific sponsorship projects on behalf of Gosselin Communications. CPPC marked up its billing to Gosselin Communications for fees paid to subcontractor by an average of 94%.

During the period from January 1 to September 30, 1998, Gosselin Communications started recruiting its own personnel while still employing, but to a much lesser extent, the services of subcontractors.

9.4.3 Subcontracted Production: Promotional Items

CPPC was also the primary provider of promotional material, such as clothing apparels, to Gosselin Communications. CPPC marked up clothing items by an average of 22% and other promotional items by an average of 96%. These subcontracted amounts were then billed by Gosselin Communications to APORS/CCSB after an additional commission of 17.65% was added to the Gosselin invoice.

Based on our analysis, sales to Gosselin Communications during the year December 31, 1997 and the nine month period ended September 30, 1998 represented 86% of CPPC total sales during these periods.

9.5

Financial Impact of Advertising and SPS Contracts on Results

9.5.1 Gosselin Communications

Based on Gosselin Communications statement of income for the eight month period ended December 31, 1997 and the nine month period ended September 30, 1998, revenues, salaries and bonuses and net income were as follows:

Table 64: Gosselin Communications Selected Financial Information

	<u>Revenues</u>	<u>Salaries and Bonuses</u>	<u>Net Income</u>
1997 (8 months)	2,985,134	585,191	92,851
1998 (9 months)	<u>11,339,033</u>	<u>3,478,841</u>	<u>160,344</u>
Total	<u>\$14,324,167</u>	<u>\$4,064,032</u>	<u>\$253,195</u>

Salaries for the years ended December 31, 1997 and 1998 were \$115,191 and \$963,841 respectively. These salaries include a total amount of \$232,567 paid to Mr. G.A. Gosselin, \$104,463 paid to Mrs. A. Côté Gosselin and \$11,575 to Mr. Nicolas Gosselin.

In addition to these salaries, bonuses amounting to \$470,000 and \$2,515,000 respectively were declared to Mr. G.A. Gosselin during these years.

Contracts awarded by APORS/CCSB to Gosselin Communications accounted for 84% of its revenues, and contracts awarded by other federal departments to this agency, accounted for another 12% of its revenues.

In addition, Gosselin Communications earned revenues of \$405,085 from the subcontractor work it billed to Lafleur Communication in connection with the Bluenose project.

Gosselin Communications received various amounts directly from the organizers of certain sponsored events (e.g. Rendez-vous Canada).

9.5.2 CPPC

Based on CPPC statement of income for the financial year ended December 31, 1997 and the period from January 1 to September 30, 1998, revenues, salaries and bonuses and net income were as follows:

Table 65: CPPC Selected Financial Information

	<u>Revenues</u>	<u>Salaries and Bonuses</u>	<u>Net Income</u>
1997 (12 months)	279,343	18,543	58,580
1998 (9 months)	<u>617,833</u>	<u>110,250</u>	<u>20,816</u>
Total	<u>\$897,176</u>	<u>\$128,793</u>	<u>\$79,396</u>

Based on our analysis, sales to Gosselin Communications during the year December 31, 1997 and the nine month period ended September 30, 1998 represented 86% of CPPC total sales during these periods.

The salaries of \$128,793 were paid for the most part to Mrs. A. Côté Gosselin.

In addition to these salaries, dividends amounting to \$78,714 were declared and paid to Mrs. A. Côté Gosselin during these years.

CPPC ceased its activities as of October 1, 1998 when Mrs. Gosselin sold its shares to Groupaction.

9.5.3 Portage Promotion

Portage Promotion ("Portage") was incorporated by Mrs. A. Côté Gosselin in October 1998, immediately after the sale of CPPC's shares to Groupaction. Officially, the founding shareholder and president of Portage Promotion was her son Nicolas Gosselin.

Portage was created for the purpose of continuing the activities of CPPC. We understand that CPPC had no activities after the sale to Groupaction. Portage became the primary provider of promotional material to Groupaction Gosselin Communications (formerly 3522610 Canada Inc.).

Based on Portage statement of income for the financial years ended September 30, 1999 to 2001, revenues, salaries and bonuses and net income were as follows:

Table 66: Portage Promotion Selected Financial Information

	<u>Revenues</u>	<u>Salaries and Bonuses</u>	<u>Net Income</u>
1999	983,799	99,471	119,409
2000	781,643	124,957	(1,881)
2001	<u>84,931</u>	<u>73,152</u>	<u>(108,794)</u>
Total	<u>\$1,850,373</u>	<u>\$297,580</u>	<u>\$8,734</u>

Based on our analysis, sales to Groupaction Gosselin during the financial years ended September 30, 1999 to 2001 represented approximately 90% of Portage total sales during these periods.

The salaries include \$38,533 and \$97,396 paid to Mrs. A.C. Gosselin and Nicolas Gosselin respectively.

9.6

The Sale of Gosselin Communications

In January 1999, Gosselin Communications entered into a sale agreement with 3522610 Canada Inc., a company owned indirectly by Mr. Jean Brault of Groupaction, to sell its fixed assets and goodwill. The agreement was signed on January 22, 1999 but was effective as of October 1, 1998.

The amount agreed upon with respect to the fixed assets was \$223,979, including \$100,000 paid immediately, \$30,995 paid during the 1999-00 financial year and \$92,985 paid in 2002.

The sale price for the goodwill was to be calculated based on a formula that would take into account the net profits to be earned by 3522610 Canada Inc. over the next four years of operations.

The amount paid with respect to the goodwill was \$275,000 paid as a bonus for the year ended September 30, 1999 and \$6,500 paid as a bonus for the year ended September 30, 2000.

In addition, the sale agreement included an employment contract for Mr. G.A. Gosselin, whereby he undertook to manage the operating expenses to be incurred by 3522610 Canada Inc. in connection with SPS contracts. This contract was terminated in September 2000. The salaries paid by 3522610 Canada Inc. in connection to the employment contract were \$200,000 for the year ended September 30, 1999, including \$51,923 paid to Mrs. A. Côté Gosselin, and \$122,305 for the year ended September 30, 2000.

A final release was signed by Mr. G.A. Gosselin on March 1, 2002, acknowledging full receipt of the amounts due to Gosselin Communications and to himself.

On January 22, 1999, Mrs. A. Côté Gosselin also entered into a sale agreement with 3522610 Canada Inc. to sell all the outstanding shares of CPPC. The agreement was effective as of October 1, 1998. The sale price was set at \$510,000, including \$300,000 paid immediately, \$52,500 paid during the year ended September 30, 2000 and \$157,500 paid in 2002. A final release was signed by Mrs. A. Côté Gosselin on March 1, 2002 acknowledging full receipt of the \$510,000.