
**THE COMMISSION
OF INQUIRY INTO
THE SPONSORSHIP
PROGRAM AND
ADVERTISING
ACTIVITIES**

**Kroll Lindquist Avey
Report**

May 18, 2005

THE COMMISSION OF INQUIRY INTO THE SPONSORSHIP PROGRAM AND ADVERTISING ACTIVITIES

KROLL LINDQUIST AVEY REPORT

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THE COMMISSION OF INQUIRY INTO THE SPONSORSHIP PROGRAM AND ADVERTISING ACTIVITIES

Kroll Lindquist Avey Report

1.0 INTRODUCTION

1.1 Retainer of KLA

Kroll Lindquist Avey ("Kroll") was retained by Mr. Justice John H. Gomery ("the Commissioner") representing Her Majesty the Queen in right of Canada for the Commission of Inquiry into the Sponsorship Program and Advertising Activities ("COI").

Specifically Kroll was retained by the Commissioner as forensic accounting experts to assist in addressing the COI's terms of reference.

In particular, Kroll was requested to undertake the following tasks:

- Identification and summarization of the Government of Canada's ("GOC") source of funds for the Sponsorship Program and Advertising expenditures during the period 1994 to 2004;
- Analysis and summary of the funds committed by the GOC with respect to Special Programs and Sponsorship ("SPS") expenditures and Advertising expenditures during the period 1994 to 2004;
- Analysis and summary of the funds received and their related uses by the communication and advertising

agencies with respect to Special Programs and Sponsorship expenditures and Advertising expenditures during the period 1994 to 2004;

- Analysis of communication and advertising agencies and related contracts and events (i) which received significant amounts of money and/or (ii) for which there were concerns;
- Assistance to COI counsel in the preparation for the examination of witnesses, including the identification of relevant documentation and information, identification of potential witnesses, examination and analysis of documentation and participation in interviews of potential witnesses;
- Investigation and research into corporate structures, asset ownership and transactions of parties of interest;
- Assistance to COI counsel with the locating, reviewing and cataloguing of documentation ultimately produced to the COI;
- Development of computerized litigation support; and
- Preparation of this report summarizing our findings related to various topics arising during the hearings of the COI.

1.2 Statement of Qualifications

Kroll is a firm of forensic accountants and litigation consultants, with approximately 75 professionals located in Toronto and Ottawa, Canada. Kroll's professionals have many years of experience investigating thousands of business transactions in Canada and throughout the world.

Kroll is part of Kroll Inc., a risk consulting company with offices in United States, Europe and Asia.

Robert Macdonald and Steven Whitla, Principals of Kroll and Chartered Accountants designated as specialists in Investigative and Forensic Accounting, and Pierre St-Laurent, Proprietor of the firm St-Laurent Faucher, les juricomptables, and a

Chartered Accountant designated as a specialist in Investigative and Forensic Accounting, have prepared this report with assistance from other professionals under their direction and supervision. Their curricula vitae and those of their colleagues who have assisted with this report are included in Appendix A.

1.3 Scope of This Report and Restriction on Its Use

This report has been prepared solely for the use of the Commission of Inquiry into the Sponsorship Program and Advertising Activities.

We do not assume any responsibility or liability for losses occasioned to any party as a result of the circulation, publication, reproduction or use of this report.

This report is based on the scope of our review as described in Section 2.0. In the event that further documents or other information become available that could impact our findings, we reserve the right to review such records and reconsider and amend the findings set out in this report.

2.0 SCOPE OF INVESTIGATION

2.1 Available Documentation

The COI issued subpoenas, a sample copy of which is included in Appendix B to this report, to individuals and corporations of interest, and the GOC issued "Call Letters", a sample of which is included as Appendix C hereto, to all federal departments, requesting documentation and information relating to the "Sponsorship Program" and "Advertising Activities" which were the subject of Chapters 3 and 4 of the November 2003 Report of the Auditor General of Canada.

Table 1 summarizes the volume of documents which were provided to the COI in response to the subpoenas and call letters.

Table 1: COI Universe of Documents – Summary Metrics

<u>Document Libraries</u>	<u>Number of Boxes</u>	<u>Estimated Number of Pages</u>
PWGSC	5,170	20,680,000
Other Government Departments	623	2,492,000
Commission of Inquiry (COI)	<u>1,275</u>	<u>5,100,000</u>
Total	<u>7,068</u>	<u>28,272,000</u>

Of the estimated 28.3 million pages catalogued, 559,411 were captured in a document management database and 480,789 were disclosed to parties with standing.

The protocols and procedures, document library and catalogue maintenance, document review and analysis and document production and disclosure undertaken by Kroll are detailed in Appendix D to this report.

In addition, at the request of COI counsel, Kroll sent a letter, a sample of which is included in Appendix E hereto, to all identified recipients of sponsorship funds, and requested each to provide information and documentation to the COI pertaining to their sponsorship.

All of these documents were available to Kroll as part of our review. To the extent we have relied on any of these documents in preparing this report, they have been reproduced and entered as exhibits before the Commissioner.

2.2 Scope Limitation

The above-noted documentation requests and subpoenas related to a 10-year period from April 1, 1994 to March 31, 2004. We note, certain of the requested books and underlying records and documentation relating to the communications agencies and their principals were not available for our review. Further, we understand that the COI has heard evidence that some of the relevant GOC documents were destroyed during this time period. In addition, we understand that many of these documents have been subject to a number of audits and that as part of that process many documents were moved from the original locations in which they were found, into a “reconstructed” file for purposes of analysis.

As a result of these factors Kroll cannot provide assurance that the GOC documents and files it has reviewed are complete and represent the files as they were in the original instance. Furthermore the incompleteness of the communications agencies’ and their principals’ books and underlying records and related files and documentation restrict our ability to report on the ultimate use of all sponsorship and advertising funds for those agencies and related contracts and events of interest.

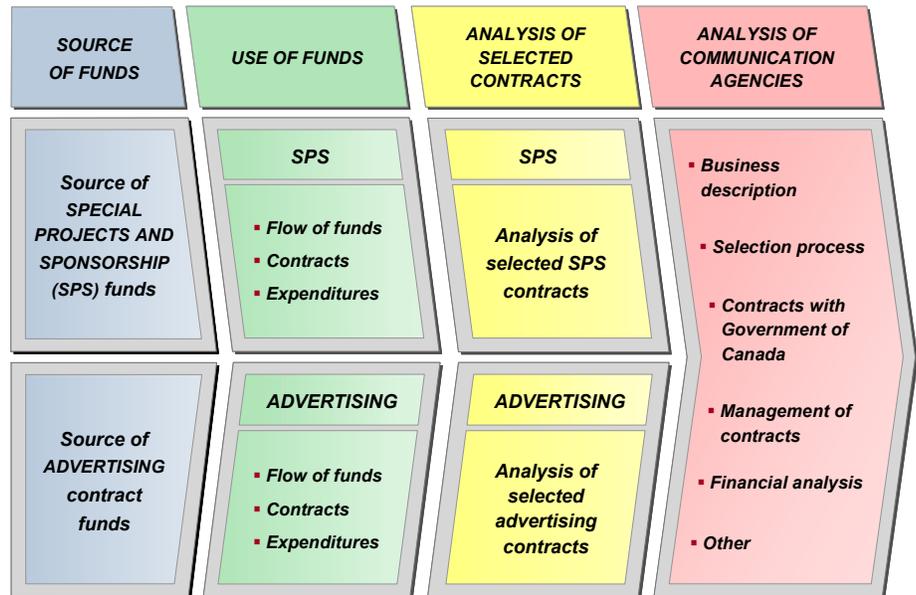
Kroll has done a review of selected agencies, contracts and events. Kroll has not done a review of all SPS contracts and all advertising contracts.

Kroll did not investigate any transactions which were the subject of criminal charges or which may have been the subject of ongoing criminal investigations.

3.0 SUMMARY OF FINDINGS – SPECIAL PROGRAMS AND SPONSORSHIP

Table 2 illustrates the framework of our findings.

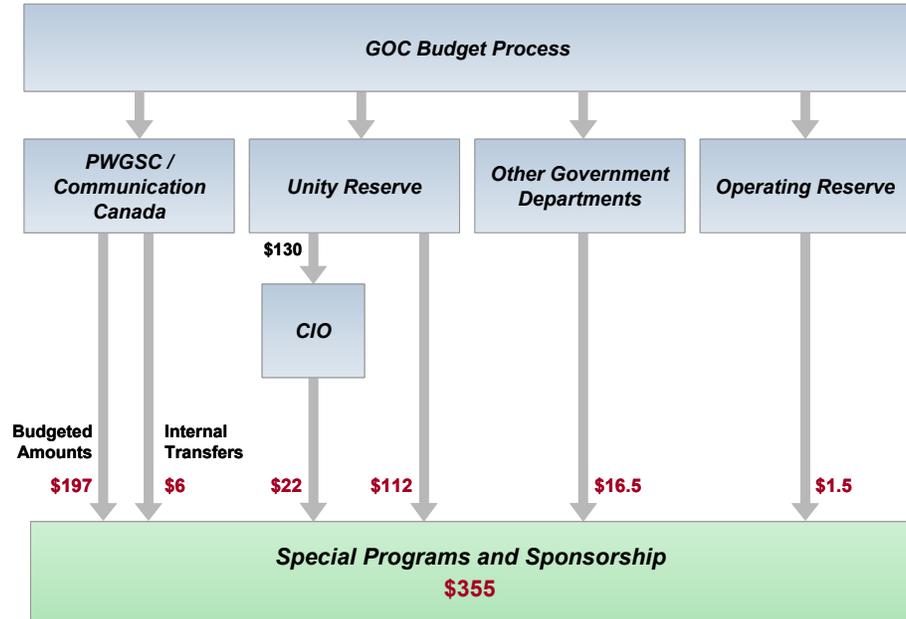
Table 2: Framework of Findings



3.1 Source of Special Programs and Sponsorship Funds – \$355 million

Our analysis of GOC funding has determined that during the period April 1, 1994 through to March 31, 2004, \$355 million was allocated to Advertising and Public Opinion Research Sector (“APORS”)/Communications Coordination Services Branch (“CCSB”)/Communication Canada for “SPS” contracts, that is contracts which have been issued for sponsorship, public opinion research, special projects, advertising, and the purchasing of promotional items. For purposes of this report we have grouped these contracts together and will refer to these as SPS contracts. The following diagram depicts the sources of funding identified.

**Table 3: Sources of Funds Received for SPS Contracts
(\$ Millions)**



Schedule 1 to this report provides a yearly summary by GOC fiscal year of the sources of this funding.

This \$355 million includes funding for SPS activities in GOC fiscal years 1994-95 to 1996-97 which was three years prior to the GOC fiscal year 1997-98 identified in the November 2003 report of the Auditor General as the year the Sponsorship Program began. The amounts expended beginning in 1994 have been included because the activities for which the funding was utilized were similar in nature to those Sponsorship activities undertaken after April 1, 1997.

Furthermore, while SPS contracts were under the control of Public Works and Government Services Canada ("PWGSC"), the SPS contracts were primarily accounted for in the "Special Programs" account within PWGSC's accounting system. The Special Programs account was an account which was under the control of Mr. Joseph Charles Guité ("Mr. Guité") during his term as head of APORS and CCSB and later by Mr. Pierre Tremblay ("Mr. Tremblay") during his tenure.

The funding noted above was provided to PWGSC for the period of 1994-95 through to September 2001 and to Communication Canada after September 2001.

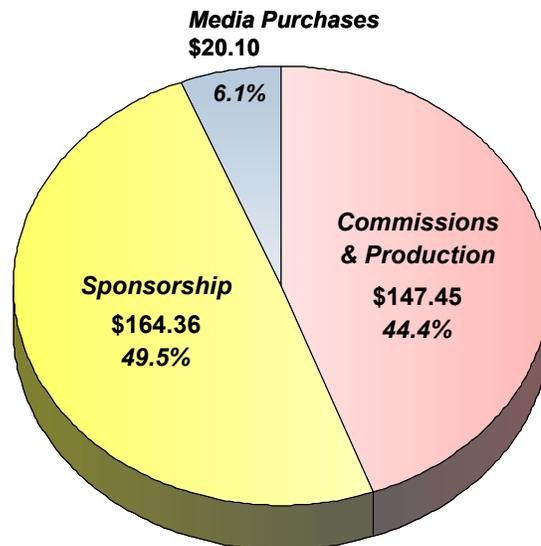
Section 6.1 of this report comments in detail about each of the specific sources of funding identified above.

3.2 Use of Special Program and Sponsorship Funds – \$332 million

3.2.1 Summary by Contract Category

Our review has determined that \$332 million of the \$355 million allocated to APORS/CCSB/Communication Canada was committed for SPS contracts; \$164 million or 49% for Sponsorships and \$168 million or 51% for agency production costs, commissions and media purchases.

Table 4: Summary of Total SPS Contracts by Expenditure Categories (\$ Millions)



Advertising agencies and other third parties, collectively referred to as communication agencies, managed these SPS contracts to the extent of \$305.1 million while Communication Canada managed sponsorships to the extent of \$26.8 million.

Table 5 illustrates the contract values managed by communication agencies and the contract values internally managed.

Table 5: Management of Special Project and Sponsorship Funds – (\$ millions)

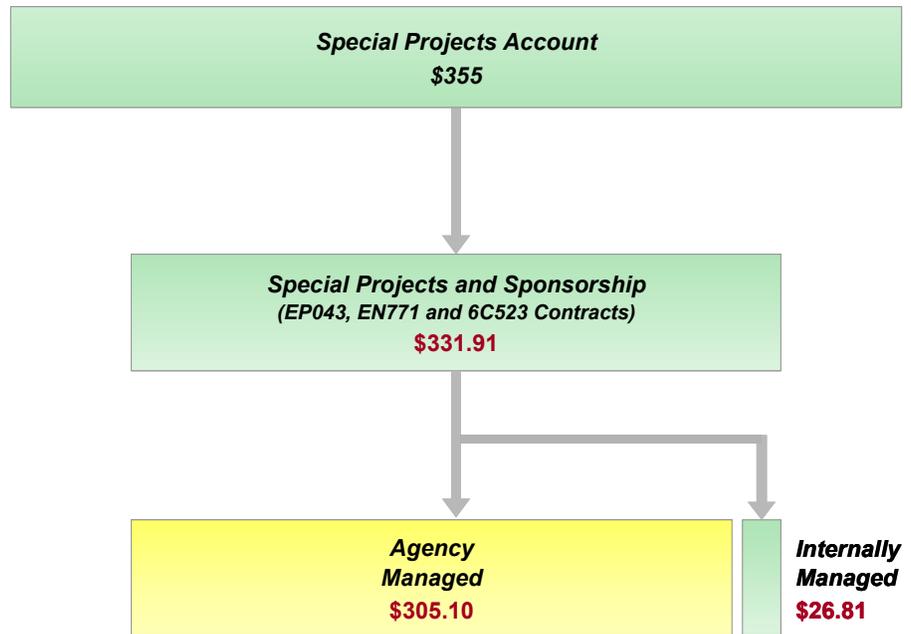


Table 6 is a summary of these amounts by year.

Table 6: Summary by Year of SPS Contract Details for Agency Managed and Internally Managed Contracts (\$ millions)

<u>Year</u>	<u>Media Purchases</u>	<u>Sponsorship</u>	<u>Agency Commission¹</u>	<u>Production</u>	<u>Total</u>
Agency Managed Contracts					
1994-95	0.74	-	0.13	1.20	2.07
1995-96	6.79	1.76	1.38	12.03	21.96
1996-97	1.55	2.38	0.29	26.57	30.79
1997-98	4.75	22.58	2.91	21.31	51.55
1998-99	6.27	23.61	4.63	26.90	61.41
1999-00	-	25.84	3.78	17.86	47.48
2000-01	-	25.41	3.76	10.81	39.98
2001-02	-	30.25	4.54	5.77	40.56
2002-03	-	8.00	1.19	0.11	9.30
Total Agency Managed	<u>20.10</u>	<u>139.83</u>	<u>22.61</u>	<u>122.56</u>	<u>305.10</u>
Internally Managed Contracts					
2001-02	-	-	-	1.40	1.40
2002-03	-	11.12	-	0.14	11.26
2003-04	-	13.41	-	0.74	14.15
Total Internally Managed	<u>-</u>	<u>24.53</u>	<u>-</u>	<u>2.28</u>	<u>26.81</u>
Total	<u>\$20.10</u>	<u>\$164.36</u>	<u>\$22.61</u>	<u>\$124.84</u>	<u>\$331.91</u>

A detailed listing of the contracts is attached as Schedule 2.

3.2.2 Summary by Agency and Contract Category

Tables 7 and 7a provide summaries of the agency managed contracts organized by the communication agency responsible for the contract and by category of expenditures.

¹ Agency commission includes commissions in relation to media purchases as well as commissions related to sponsorship.

Table 7: Summary of Total SPS Contracts by Agency

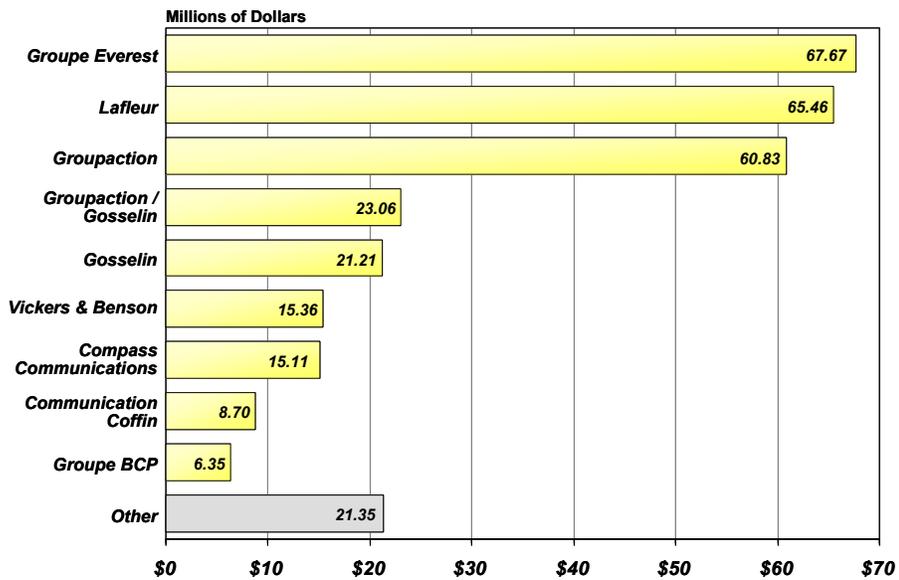


Table 7a: Summary of Total SPS Contracts by Agency and Expenditure Categories (\$ millions)

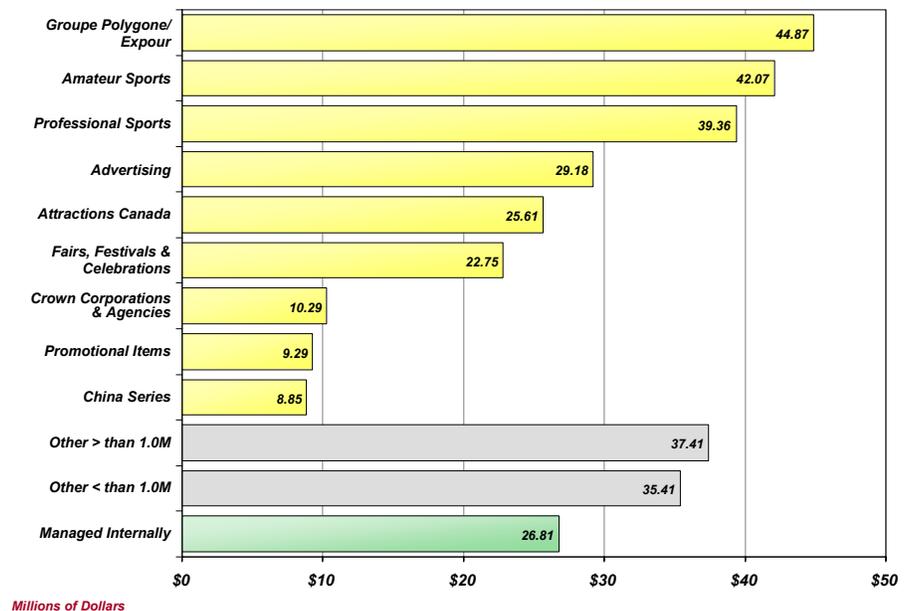
Managing Agency	Media Purchases	Sponsorship	Agency Commission	Production	Total
Groupe Everest	2.97	28.34	4.19	32.17	67.67
Lafleur	1.91	26.20	4.15	33.20	65.46
Groupaction	6.52	37.21	5.87	11.23	60.83
Groupaction/ Gosselin	-	13.00	1.91	8.15	23.06
Gosselin	0.08	11.31	1.58	8.24	21.21
Vickers and Benson	3.40	-	0.60	11.36	15.36
Compass Communications	0.71	7.79	1.30	5.31	15.11
Communication Coffin	-	5.39	0.78	2.53	8.70
Groupe BCP	3.40	0.03	0.61	2.31	6.35
Other	<u>1.11</u>	<u>10.56</u>	<u>1.62</u>	<u>8.06</u>	<u>21.35</u>
Total Managed by Agencies	20.10	139.83	22.61	122.56	305.10
Managed by Communication Canada	-	<u>24.53</u>	-	<u>2.28</u>	<u>26.81</u>
Total Contracts	<u>\$20.10</u>	<u>\$164.36</u>	<u>\$22.61</u>	<u>\$124.84</u>	<u>\$331.91</u>

A detailed listing of these contracts is attached as Schedule 3.

3.2.3 Nature of SPS Expenditures

Kroll has organized the SPS expenditures in a manner which identifies significant events and categories or types of events. The categorization has been done with reliance on the name and description of the event as identified in the SPS contract documentation. Table 8 provides a summary of the total contract values by type of events.

Table 8: Summary by Event Category of SPS Contracts



Section 6.2.3 and Appendix F provides our detailed commentary on the above-noted event categories. A detailed listing of the events in each category is attached as Schedule 4.

3.3 Analysis of Selected Special Program and Sponsorship Contracts

3.3.1 SPS Contracts Sampled

Kroll selected a sample of SPS contracts from the years 1996-97 to 2000-01, for purposes of reviewing invoices and underlying supporting documents in respect of billings to PWGSC.

We selected our sample contracts from this period because:

-
- i) Documentation was limited with respect to the years 1994-95 and 1995-96;
 - ii) The problems identified by PWGSC internal audit relating to the management of the Sponsorship programs occurred primarily during this period; and
 - iii) An action plan was initiated in October 2000 to rectify the problems, including the transfer of the Sponsorship Program to Communication Canada in September 2001.

A summary of the contracts we reviewed compared to total SPS contracts for the period is as follows:

**Table 9: Summary of Selected SPS Contracts Reviewed by Kroll
(\$ millions)**

	Total Contracts During the Period	Contracts Reviewed by Kroll	Percentage of Total Contracted
Sponsorships	99.82	94.78	95.0%
Agency Commission	15.37	13.61	88.6%
Media Purchases	12.57	5.96	47.4%
Production	<u>103.45</u>	<u>96.19</u>	93.0%
Total	<u>\$231.21</u>	<u>\$210.54</u>	91.2%

A detailed listing of the contracts is attached as Schedule 5.

Our review of the invoices and underlying documents for this sample of contracts indicated there were invoices in PWGSC files from the communication agencies supporting \$208.78 million, being 99.3% of the total. At this time, we are unable to determine whether or not the balance of the contracted amounts were billed by the agencies.

With respect to the invoices which were in the files, we noted varying degrees of detail and information contained in them or in underlying supporting documentation. For example, some provided details of hours being billed by name or level of person, some only provided a total lump sum, some provided a listing of subcontracted work and provided underlying supporting documentation while others indicated a total on a single line with little or no supporting documentation.

3.3.2 Analysis of Sponsorship and Agency Production Costs

For the \$210.54 million of contracts selected by Kroll, based primarily on the information in the PWGSC files, in summary, we determined that 45.4% was invoiced for payments directly to the sponsorees, 27.8% of the contract values were invoiced for work done by agencies and related parties, and the balance, 26.4%, was invoiced for work done by third parties. Table 10 below summarizes our findings in this regard.

Table 10: Kroll Analysis of Selected SPS Contracts 1996-97 to 2000-01 (\$ millions)

	96-97	97-98	98-99	99-00	00-01	Total	Percentage
Sponsorships	5.38	18.39	22.79	24.74	24.30	95.60	45.4%
Amounts Invoiced for Work Done by Agencies and Related Parties							
Agency Sponsorship Commissions	0.61	2.16	2.73	2.95	2.92	11.37	
Agency Production	1.60	3.72	0.91	0.15	-	6.38	
Agency Time Charges	3.58	5.72	7.00	5.35	1.58	23.23	
Agency Commissions ¹	1.17	2.40	1.85	1.72	1.05	8.19	
Subcontracted to Related Party	<u>1.52</u>	<u>1.95</u>	<u>3.01</u>	<u>1.85</u>	<u>1.09</u>	<u>9.42</u>	
Total Invoiced for Work Done by Agencies and Related Parties	<u>8.48</u>	<u>15.95</u>	<u>15.50</u>	<u>12.02</u>	<u>6.64</u>	<u>58.59</u>	<u>27.8%</u>
Amounts Invoiced for Work Done by Third Party							
Subcontracted to Unrelated or Unknown Party	10.96	8.51	9.58	7.41	4.05	40.51	
AOR Commission	-	-	0.65	0.69	0.71	2.05	
Media Purchases	<u>0.03</u>	<u>6.77</u>	<u>3.93</u>	<u>0.84</u>	<u>1.35</u>	<u>12.92</u>	
Total Invoice for Work Done by Third Party	<u>10.99</u>	<u>15.28</u>	<u>14.16</u>	<u>8.94</u>	<u>6.11</u>	<u>55.48</u>	<u>26.4%</u>
Unspent Amounts or Invoices Not Located	<u>-</u>	<u>0.31</u>	<u>0.22</u>	<u>0.14</u>	<u>0.20</u>	<u>0.87</u>	<u>0.4%</u>
Total Contract Value	<u>\$24.85</u>	<u>\$49.93</u>	<u>\$52.67</u>	<u>\$45.84</u>	<u>\$37.25</u>	<u>\$210.54</u>	<u>100.0%</u>

¹ Includes commissions on subcontracted amounts and media purchases.

A summary, by contract, supporting this table is attached as Schedule 6. For the contracts we reviewed, 99.6% of the contract values were billed indicating that the agencies billed up to the full extent of the contracts.

Other findings from our contract review are noted in Sections 5.4 and 6.3 of this report.

3.3.3 November 2003 Report of the Auditor General

The Auditor General (“AG”) in her report of November 2003, referred to Sponsorship contracts totaling \$250 million. The categories of the contracted amounts stipulated in the contract documents were as follows:

Table 11: Summary of Contract Details for Contracts Referred to in the Auditor General’s Report

	<u>\$ Millions</u>	<u>Percentage</u>
Sponsorships	<u>145.7</u>	<u>57%</u>
Agency Commission	19.9	8%
Media Purchases	6.9	3%
Production	<u>81.1</u>	<u>32%</u>
Total Agency Commissions, Media Purchases and Production	<u>107.9</u>	<u>43%</u>
Total Contracts	<u>\$253.6</u>	<u>100%</u>

A detailed listing of the contracts is attached as Schedule 7.

The difference between the value of SPS contracts noted in the AG’s report and the listing of SPS contracts in this report relates primarily to the time period covered by each report. Specifically Kroll’s listing of SPS contracts include SPS contracts from 1994-95 to 1996-97 and contracts in 2000-04 which were not included in the AG’s audit.

4.0 SUMMARY OF FINDINGS – ADVERTISING CONTRACTS

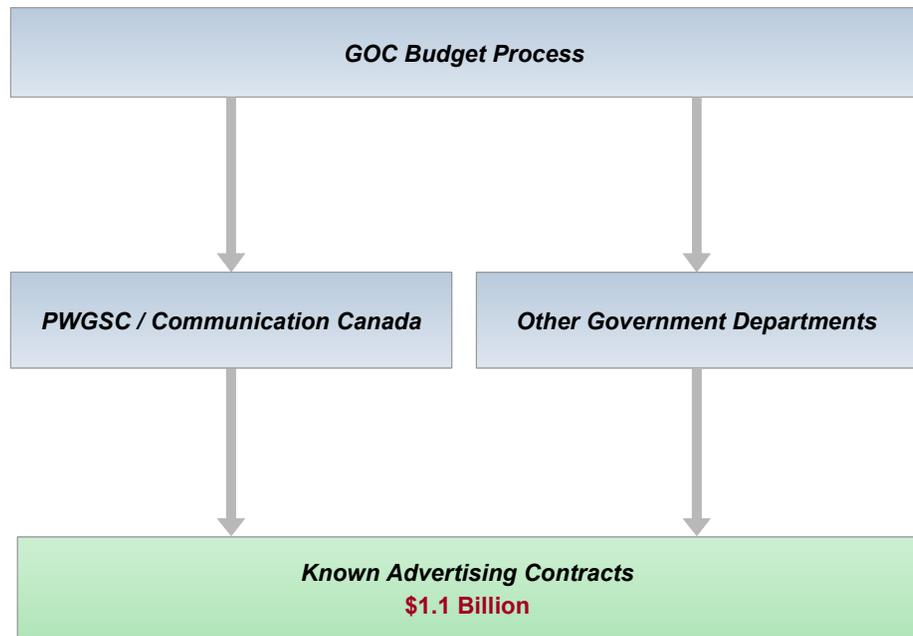
4.1 Source of Advertising Contract Funds – \$1.1 billion

The GOC annual budgeting process approved departmental spending authorities. These departmental spending authorities included sufficient funds to allow departments to issue contracts totaling at least \$1.1 billion for departmental advertising between April 1, 1994 and March 31, 2003. Amounts budgeted for advertising varied by department and by year depending on the initiatives to be undertaken by the department.

PWGSC managed some advertising contracts on behalf of other departments, most notably Canada Mortgage and Housing Corporation (“CMHC”) and the Canada Information Office (“CIO”) and received transfers of funds from those and other departments to fund advertising activities. Additionally PWGSC had amounts allocated to it for advertising as part of the annual budgeting process.

As indicated in Section 6.1, the Unity Reserve provided all of the funding for the CIO between 1996-97 and 2000-01. Therefore CIO’s \$22.9 million of advertising up to fiscal 2000-01 appears to have been funded by the Unity Reserve.

Table 12: Sources of Funds Received for Advertising Contracts



4.2 Use of Advertising Funds by GOC – \$1.1 billion

4.2.1 Summary by Year

Kroll prepared a list of advertising contracts from the available PWGSC records and other documentation.

Table 13 summarizes these contracts by year.

Table 13: Summary by Year of the Total Dollar Value of Identified Advertising Contracts Issued by the GOC (\$ millions)

Fiscal Year	Contracts for Media Purchases	Contracts for Work by Agencies	Total
94-95	16.79	25.97	42.76
95-96	32.90	46.85	79.75
96-97	41.95	43.04	84.99
97-98	56.90	57.35	114.25
98-99	59.97	69.88	129.85
99-00	57.27	76.95	134.22
00-01	100.46	96.89	197.35
01-02	126.63	76.17	202.80
02-03	<u>101.42</u>	<u>34.33</u>	<u>135.75</u>
Total	<u>\$594.29</u>	<u>\$527.43</u>	<u>\$1,121.72</u>

Contracts for media purchases were, for the most part, with the Agency of Record (“AOR”). The AOR purchased media space

on behalf of the GOC in accordance with a media plan developed by the communication agency.

4.2.2 Summary by Department

The twelve departments listed in Table 14, accounted for 84% of the identified advertising contracts entered into by the GOC. These amounts exclude advertising initiatives totaling approximately \$29.18 million undertaken by the GOC that were funded through the SPS contracts.

Table 14: Summary by Department of the Total Dollar Value of Identified Advertising Contracts (\$ millions)

	Contracts for Media Purchases	Contracts for Work by Agencies	Total Contracts
Canadian Tourism Commission	61.20	167.56	228.76
Industry Canada	51.05	72.80	123.85
Finance Canada	79.12	36.79	115.91
Health Canada	58.67	45.00	103.67
National Defence	67.38	13.83	81.21
Human Resources Development Canada	63.58	14.53	78.11
Natural Resources Canada	35.49	18.07	53.56
Canada Information Office	28.78	13.06	41.84
Justice Canada	29.94	7.98	37.92
Heritage Canada	7.78	27.87	35.65
Public Works & Government Services Canada	6.93	17.00	23.93
Canada Customs and Revenue Agency	<u>9.59</u>	<u>8.75</u>	<u>18.34</u>
	499.51	443.24	942.75
All Other Departments	<u>94.78</u>	<u>84.19</u>	<u>178.97</u>
Total Contracts	<u>\$594.29</u>	<u>\$527.43</u>	<u>\$1,121.72</u>

4.2.3 Summary by Agency

Our review determined that between April 1, 1994 and March 31, 2003 communication agencies were involved with advertising either as the agency responsible for production or, in the case of contracts with the AOR, as the agency responsible for the media plan. Table 15 lists the total dollar value of communication agency managed contracts.

Table 15: Summary by Managing Communication Agency of the Total Dollar Value of Identified Advertising Contracts¹
(\$ millions)

Managing Communication Agency	Contract Type		
	Media Purchases ¹	Production and Full Service ²	Total Contracts
Vickers & Benson	91.24	186.33	277.57
BCP	73.47	86.26	159.73
Groupaction Marketing	81.32	30.12	111.44
Allard Johnson Communications Inc.	65.00	14.98	79.98
Genesis Media (no agency indicated)	49.37	6.06	55.43
Groupe Everest	15.11	25.34	40.45
Focus Strategies	25.46	13.24	38.70
Gingko Group	15.09	10.92	26.01
McKim Communications	12.10	12.79	24.89
Bowen & Binstock	16.33	5.36	21.69
LBJ.FRB Communications Inc.	14.88	2.99	17.87
Média / I.D.A. Vision (no agency indicated)	17.13	-	17.13
Acart Communications	14.49	1.97	16.46
Palmer Jarvis Advertising	6.94	8.17	15.11
Freeman, Rodgers & Battaglia	11.53	3.33	14.86
Allard et Associés	4.28	10.51	14.79
Poirier Communications Ltd.	6.56	7.99	14.55
Scott Thornley & Co.	1.41	12.91	14.32
Ensemble Consortium (Groupaction, Vickers, Compass, Focus, Coffin)	9.33	4.20	13.53
Weaver Tanner & Miller Inc.	8.16	4.99	13.15
Vision 4 (Groupaction, Focus, Compass and Acart)	8.02	4.43	12.45
All Other Agencies	47.07	74.54	121.61
Total Contracts	<u>\$594.29</u>	<u>\$527.43</u>	<u>\$1,121.72</u>

A detailed listing of the contracts supporting Tables 13, 14, and 15 are attached as Schedules 8, 9 and 10.

4.3 Analysis of

4.3.1 Selected Advertising Contracts

¹ Includes contracts for media purchases for which the identified agency acted as the communication agency. The communication agency received a fee generally calculated as 11.75% of the gross value of media purchased by the AOR for the preparation of the media placement plan. The AOR received for its services, a fee of 3.25% of the gross value of the media placed. These commissions are included in the contracted amount.

² In a full service contract the communication agencies purchase the media as well as undertaking the production work. In a production contract the media purchases are done through the AOR.

**Selected
Advertising
Contracts**

Kroll selected a sample of advertising contracts totaling \$46.37 million from the years 1996-97 to 2001-02 for the purposes of reviewing invoices and underlying supporting documents in respect of billings to government departments including PWGSC. The sample represents 11% of the contracts issued during the period.

The selection of contracts chosen for detailed review included 19% of the advertising contracts issued by PWGSC and CIO. Table 16 provides a summary of the advertising contracts reviewed by Kroll.

**Table 16: Summary of Advertising Contracts Reviewed by Kroll
(\$ millions)**

	<u>Total Contracts During the Period</u>	<u>Contracts Reviewed by Kroll</u>	<u>Percent (%)</u>
PWGSC ¹ and CIO	61.90	11.47	19%
All Other Departments	<u>358.38</u>	<u>34.90</u>	10%
Total	<u>\$420.28</u>	<u>\$46.37</u>	11%

With respect to the invoices and supporting documentation, as with the SPS invoices, we noted varying degrees of detail and information contained in invoices and supporting documentation.

A detailed listing of contracts reviewed by Kroll is attached as Schedule 11.

4.3.2 Analysis of Agency Services Including Production Costs

Table 17 provides a summary of the results of Kroll's review of advertising contracts by type of expenditure.

¹ Including amounts contracted on behalf of CMHC.

**Table 17: Kroll Analysis of Selected Advertising Contracts
(\$ millions)**

	<u>Total</u>	<u>Percentage</u>
Sponsorships	0.46	1.0%
Amounts Invoiced for Work Done by Agencies and Related Parties		
Agency Sponsorship Commissions	0.05	
Agency Production	0.03	
Agency Time Charges	2.88	
Agency Commissions on Subcontracted Amounts	1.92	
Amounts Subcontracted to Related Party	<u>3.46</u>	
Total Invoiced for Work Done by Agencies and Related Parties	<u>8.34</u>	18.0%
Subcontracted to Unrelated or Unknown Party	26.00	56.1%
Unspent Amounts or Invoices not Located	<u>11.52</u>	<u>24.9%</u>
Total Contract Value	<u>\$46.32</u>	<u>100.0%</u>

A summary by agency supporting this table is attached as Schedule 12.

We note, in contrast to the SPS contracts we selected for review, the agencies appear to have billed only 75% of the contract values.

With respect to the specific advertising contracts we reviewed, we noted:

- i) Several instances in which “sponsorship” money was paid;
- ii) Billing to departments for agency services based on approved estimates rather than on actual hours incurred at the agreed contract rate; and
- iii) Commission of 17.65% charged on related party subcontracts.

5.0 SUMMARY OF FINDINGS – COMMUNICATION AGENCIES

5.1 Agency Selection

5.1.1 *SPS Agency Selection*

In February 1995, five agencies, Groupe Everest, BCP, Compass, Palmer Jarvis and Vickers & Benson, were chosen on the second day of Heritage Canada selection process. In an undated memo Mr. Guité indicated that these five agencies “will be included on the PWGSC/APORS qualified supplier list for possible communication/advertising contracts on behalf of APORS.”

In June 1995 Consortium Lafleur was selected. This consortium included Lafleur together with Compass, Natcom Publicité, Freeman Roger Battaglia and SKS Advertising.

In an April 1997 selection process ten agencies were chosen. The ten included:

- Communication Coffin with SOS Communications
- Delta Media Inc.
- Freeman Rodgers Battaglia Inc.
- Goodman Communications Inc.
- Gosselin
- Groupaction
- Manifest Communications Inc.
- Publicité Martin Inc.
- Scott Thornley & Company Inc.
- Sparks Communications Inc.

In a May 2001 selection process, nine agencies were chosen to receive standing offers including:

- Armada
- Bristol Group
- Coffin
- Compass
- Everest
- Gosselin

- Groupaction
- Lafleur
- TNC Multicom Inc.

Table 18 summarizes the percentage, by dollar value of contracts managed by the agencies chosen in the four agency selection competitions.

Table 18: Summary of SPS Contracts Managed by Agencies

Agencies Chosen in 1995, 1997 and 2001	Total Contracts	Percentage
Groupe Everest	67.67	22.18%
Lafleur	65.46	21.46%
Groupaction	60.83	19.94%
Groupaction/Gosselin	23.06	7.56%
Gosselin	21.21	6.95%
Vickers and Benson	15.36	5.03%
Compass Communications	15.11	4.95%
Communication Coffin	8.70	2.85%
Groupe BCP	6.35	2.08%
Armada	4.60	1.51%
TNC Multicom	3.48	1.14%
Palmer Jarvis Advertising	2.83	0.93%
Publicité Martin	1.51	0.49%
Bristol Group	0.55	0.18%
Delta Media	0.24	0.08%
Communications Consultants	0.18	0.06%
SOS Communications	0.02	0.01%
Sparks	-	0.00%
Goodman	-	0.00%
Manifest	-	0.00%
Scott Thornley	-	0.00%
Total for Agencies Chosen in 1995, 1997 and 2001	297.16	97.40%
All Other Agencies	<u>7.94</u>	<u>2.60%</u>
Total Agency Managed Contracts	<u>305.10</u>	<u>100.00%</u>

5.1.2 Advertising Agency Selection

Sections 8 to 16 provide the details of the departmental selection competitions as they relate to each agency.

5.2 Cash Flow to Agencies

Based on our analysis of the flow of funds for those agencies

and sub-contractors described in Sections 8 to 16 of this report, we can provide the following summary comments:

- i) The entities received from 23% (Vickers & Benson) to 100% (Gosselin) of their revenues from GOC business.
- ii) For the periods in which the firms received GOC related revenues, profits from all sources of business totaled \$46.0 million^{1,2}
- iii) For the periods in which the firms received GOC related revenues, salaries and bonuses paid to their owners totaled \$51.2 million².
- iv) For the periods in which the firms received GOC related revenues, political contributions were made to the Liberal Party of Canada, totaling, at a minimum, \$768,000. If the amounts identified by Mr. Brault as payments for a political purpose are included, this amount rises to \$2.5 million².
- v) Payment were made to Oro Communications totaling \$525,923. In addition, Société Immobilière Alexsim (controlled by Jean Brault) paid \$25,000 to Mr. Guité, Mr. Brault purchased a car for \$35,000 from Mr. Guité and Mr. Coffin purchased a boat for \$27,000 from Mr. Guité.

¹ Excludes net gains on sale of business by Groupe Everest and BCP.

² Includes Groupe Polygone, Expour and PluriDesign.

Included in this section of our report are summary flow of funds charts for those communications agencies and sub-contractors for which we have conducted financial analysis. These agencies and sub-contractor companies include the following:

<u>Table</u>	<u>Communication Agency / Sub-contractors</u>	<u>Year</u>	<u>Detailed Findings Section</u>
19	Lafleur Communications	1993 to 2001	8
20	Gosselin Communications	May 1997 to September 1998	9
21	Groupaction	1996 to 2001	10
22	Groupe Polygone and Expour	1997 to 2003	11
23	PluriDesign	1996 to 2004	12
23a	Jacques Corriveau Designer Inc.	1996 to 2004	12
24	Groupe Everest	1995 to 2002	13
25	Communication Coffin	1996 to 2003	14
26	Vickers and Benson	1996 to 2003	15
27	BCP	1994 to 2003	16

Table 19: Lafleur Communications – Flow of Funds (1993 to 2001)

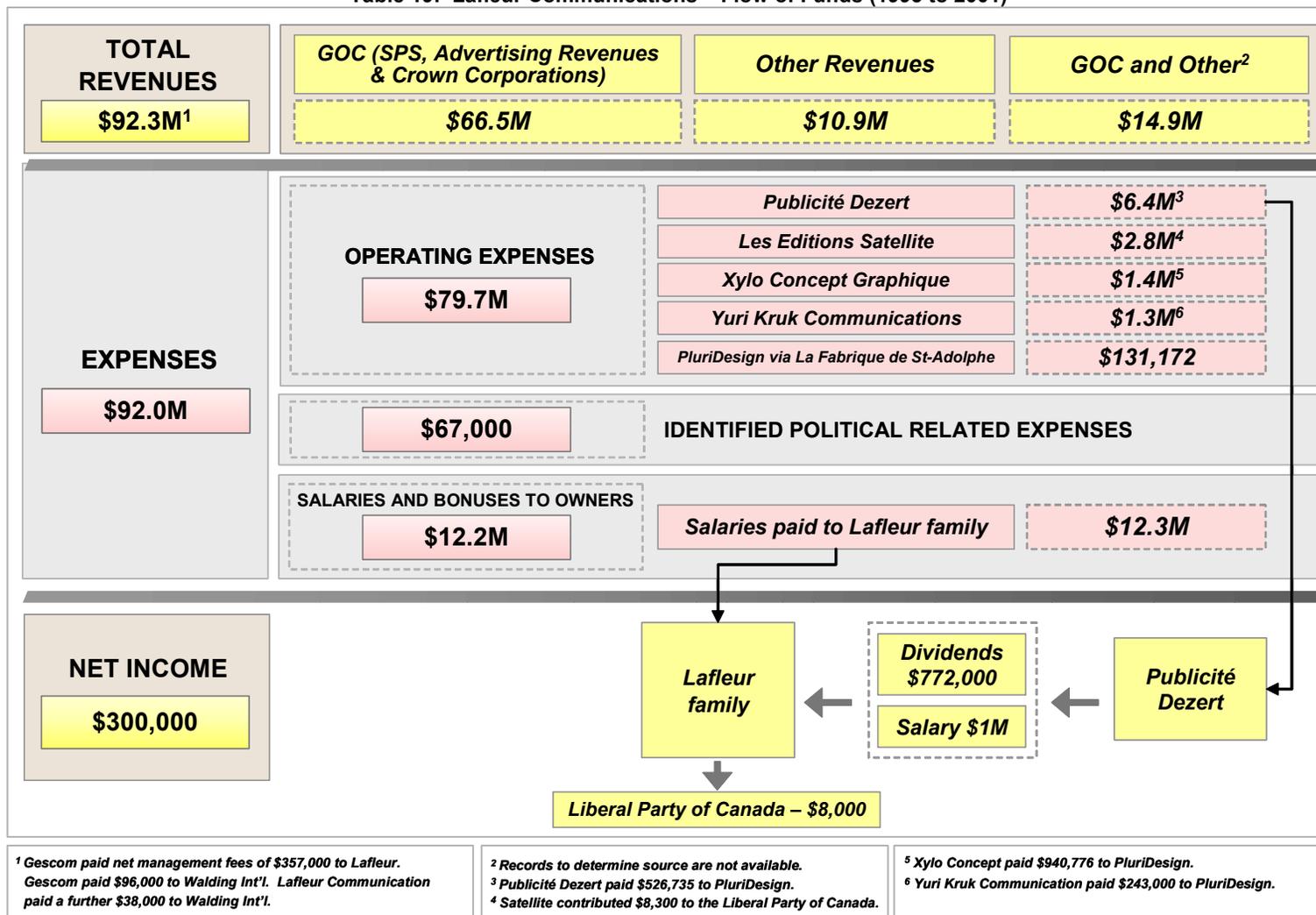


Table 20: Gosselin Communication – Flow of Funds (May 1997 to September 1998)

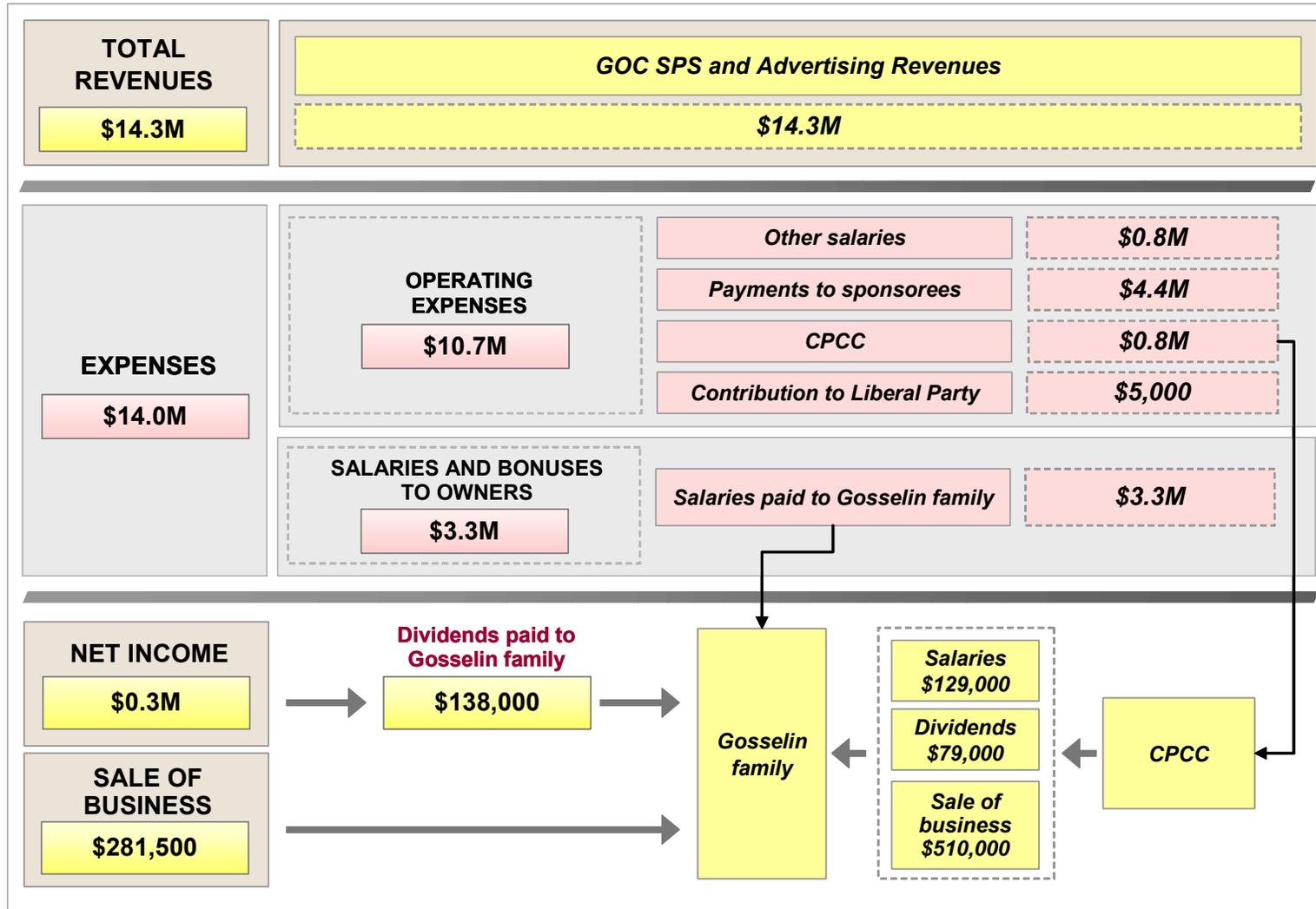


Table 21: Groupaction – Flow of Funds (1996 to 2001)

TOTAL REVENUES	\$177.6M	<i>GOC SPS and Advertising Revenues</i>	<i>Groupe Polygone and Expour Revenues</i>	<i>Other Revenues</i>
		\$46.6M	\$1.9M¹	\$129.1M
EXPENSES	\$172.6M	OPERATING EXPENSES		\$167.5M
		<i>PluriDesign</i>	\$430,370	
		<i>Oro Communication</i>	\$127,731	
		IDENTIFIED POLITICAL RELATED EXPENSES		\$2.0M
		<i>Political contributions (Liberal Party)</i>	\$170,784	
		<i>Other payments purportedly related to Liberal Party</i>	\$1.8M	
		SALARIES AND BONUSES TO OWNERS		\$3.1M
		<i>Salaries paid to Joane Archambault</i>	\$358,960	
		<i>Salaries paid to Jean Brault</i>	\$2.8M	
NET INCOME	\$5.0M			
	\$1.8M	<i>Dividends paid to shareholders</i>		
	\$35,000	<i>Car purchased from J.C. Guité²</i>	<i>Personal use and investments</i>	

¹ Other companies related to Groupaction received \$163,750 from Groupe Polygone and Expour, for a total amount received of \$2,097,800.

² Société Immobilière Alexism, controlled by Jean Brault, also paid \$25,000 to J.C. Guité.

Table 22: Groupe Polygone and Expour – Flow of Funds (1997 to 2003)

TOTAL REVENUES	<i>Revenues from GOC Advertising and SPS Contracts</i>		<i>Revenues from other sources</i>																										
\$117.0M	\$38.6M		\$78.4M																										
EXPENSES	<i>PluriDesign</i>		<i>J. Brault Companies</i>																										
\$91.4M	\$5.8M		\$2.1M																										
INCOME BEFORE TAXES	<i>Income before taxes</i>																												
\$25.6M	\$25.6M																												
OTHER EXPENSES	<i>Income taxes</i>		<i>Losses on liquidation of companies</i>																										
\$11.5M	\$8.9M		\$2.6M																										
NET INCOME	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="background-color: #ffff00;">Groupe Polygone</td> <td style="text-align: center;">Funds advanced to Expour \$2.7M</td> <td style="background-color: #ffff00;">Expour</td> <td style="text-align: center;">\$1.7M</td> <td style="background-color: #ffff00;">Funds advanced or transferred into investment companies controlled by Luc Lemay</td> </tr> <tr> <td style="border: 1px dashed black; background-color: #ffff00;">\$14.8M</td> <td></td> <td style="border: 1px dashed black; background-color: #ffff00;">\$(0.7M)</td> <td></td> <td style="background-color: #ffff00;">\$13.5M</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;">↑</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;">←</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;">\$11.8M</td> </tr> </table>				Groupe Polygone	Funds advanced to Expour \$2.7M	Expour	\$1.7M	Funds advanced or transferred into investment companies controlled by Luc Lemay	\$14.8M		\$(0.7M)		\$13.5M					↑					←					\$11.8M
Groupe Polygone	Funds advanced to Expour \$2.7M	Expour	\$1.7M	Funds advanced or transferred into investment companies controlled by Luc Lemay																									
\$14.8M		\$(0.7M)		\$13.5M																									
				↑																									
				←																									
				\$11.8M																									

Table 23: PluriDesign – Flow of Funds (1996 to 2004)

TOTAL REVENUES	<i>Liberal Party of Canada</i>	<i>Groupe Polygone and Expour</i>	<i>Revenues assoc. with Jean Lafleur</i>	<i>Groupaction</i>	<i>Other Sources</i>
\$10.1M	\$1.2M	\$5.8M	\$1.8M	\$0.4M	\$0.9M
EXPENSES	<i>Salary and bonuses to Jacques Corriveau</i>	<i>Production Costs</i>	<i>Political Contributions (Liberal Party)</i>	<i>Other Expenses</i>	
\$8.7M	\$4.4M¹	\$2.2M	\$42,974²	\$2.1M	
INCOME BEFORE TAXES	<i>Income before taxes</i>				
\$1.4M	\$1.4M				
INCOME TAXES	<i>Income taxes</i>				
\$0.3M	\$0.3M				
NET INCOME	Dividends paid to Jacques Corriveau Designer Inc.				
\$1.1M	→	\$1.1M			

¹ Consists of \$0.5M in gross salaries, \$1.8M in net bonuses (\$1.6M re-deposited into Jacques Corriveau Designer Inc.) and \$2.1M in taxes paid on the bonuses.
² Other contributions include: PluriDesign \$4,742 (1993-1995), Jacques Corriveau \$2,541 (1993-2003), Madeleine Corriveau \$2,027 (1993-2003) and Jacques Corriveau Designer Inc. \$905 (1993-2003), for a total of \$53,189 (1993-2003)

Table 23a: Jacques Corriveau Designer Inc. – Flow of Funds (1996 to 2004)

SOURCE OF FUNDS	<i>Re-investment of after tax bonuses received by Jacques Corriveau</i>	<i>Dividends from PluriDesign</i>	<i>Re-investment of dividends received by Jacques Corriveau</i>	<i>Other advances from Jacques Corriveau</i>
	\$3.3M	\$1.6M	\$1.1M	\$0.4M¹
<hr/>				
APPLICATION OF FUNDS	<i>Cash and marketable securities left in investment company</i>	<i>Dividends paid to Jacques Corriveau</i>	<i>Payments of house renovations</i>	<i>Other payments to Jacques Corriveau</i>
	\$3.3M	\$2.4M	\$0.4M¹	\$0.4M
¹ The dividends paid by Jacques Corriveau Designer Inc. to Jacques Corriveau were re-invested in the company.				

Table 24: Groupe Everest – Flow of Funds (1995 to 2002)

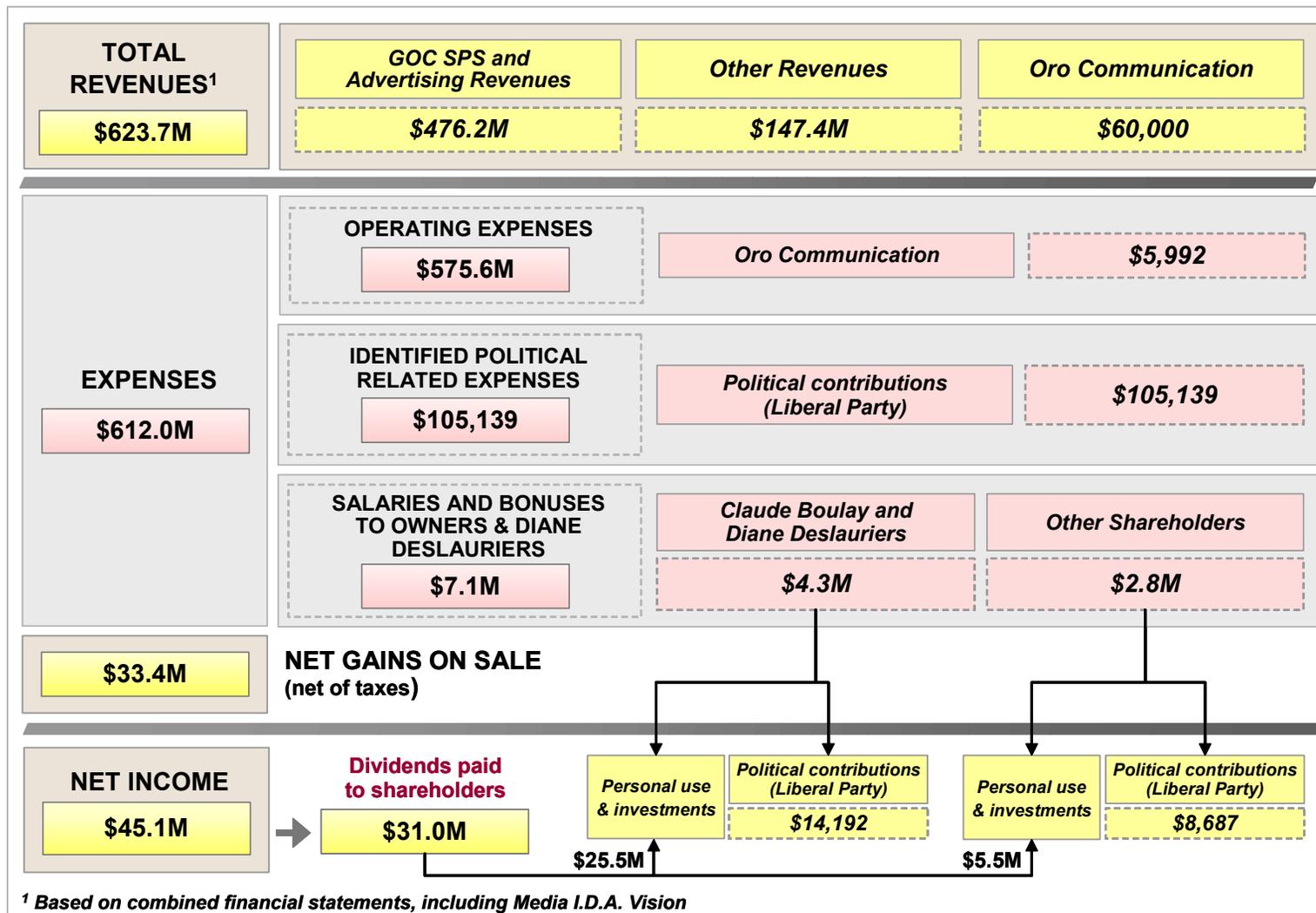


Table 25: Coffin – Flow of Funds (1996 to 2003)

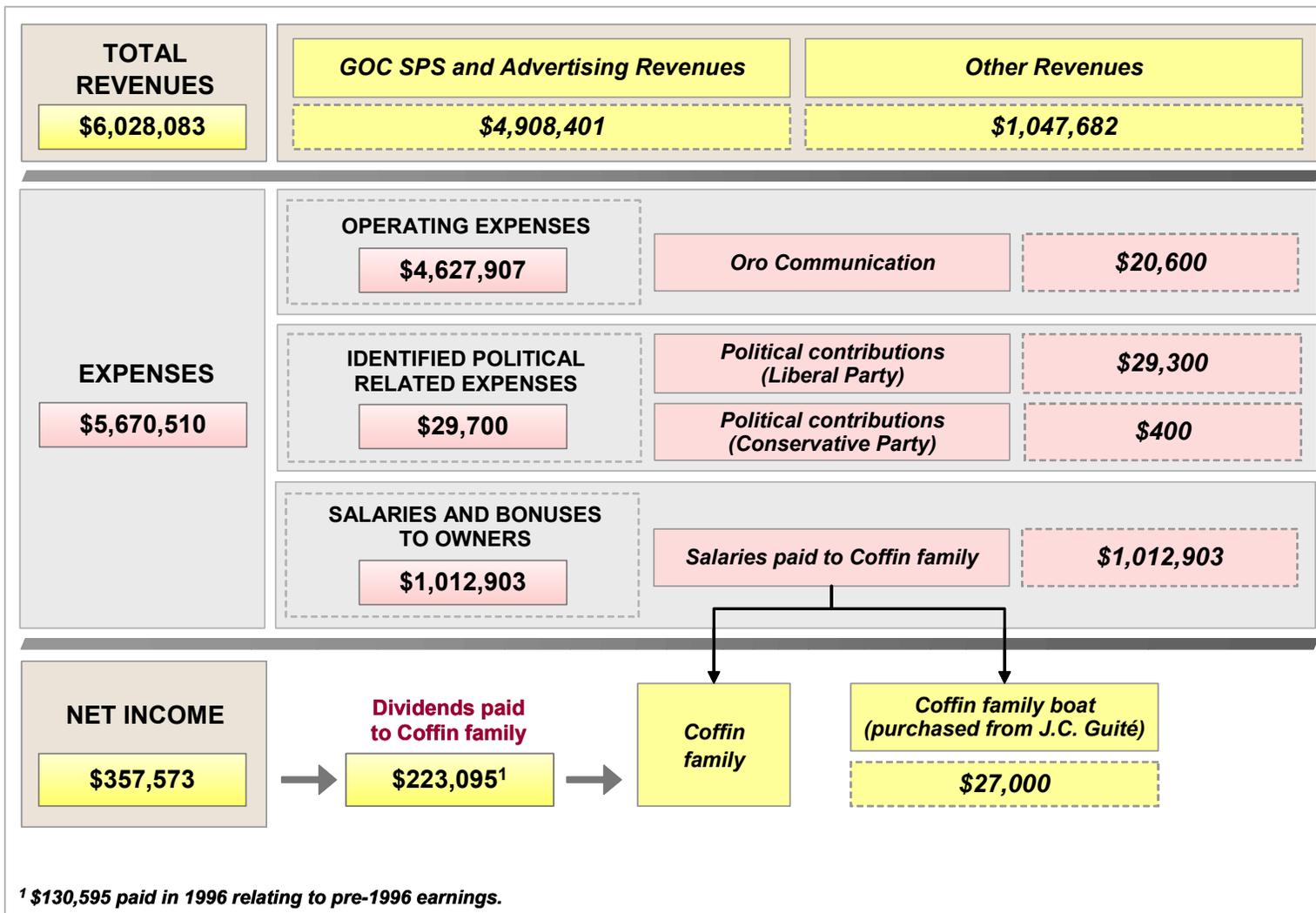


Table 26: Vickers and Benson Companies Ltd. (VCBL) – Flow of Funds (1996 to 2003)

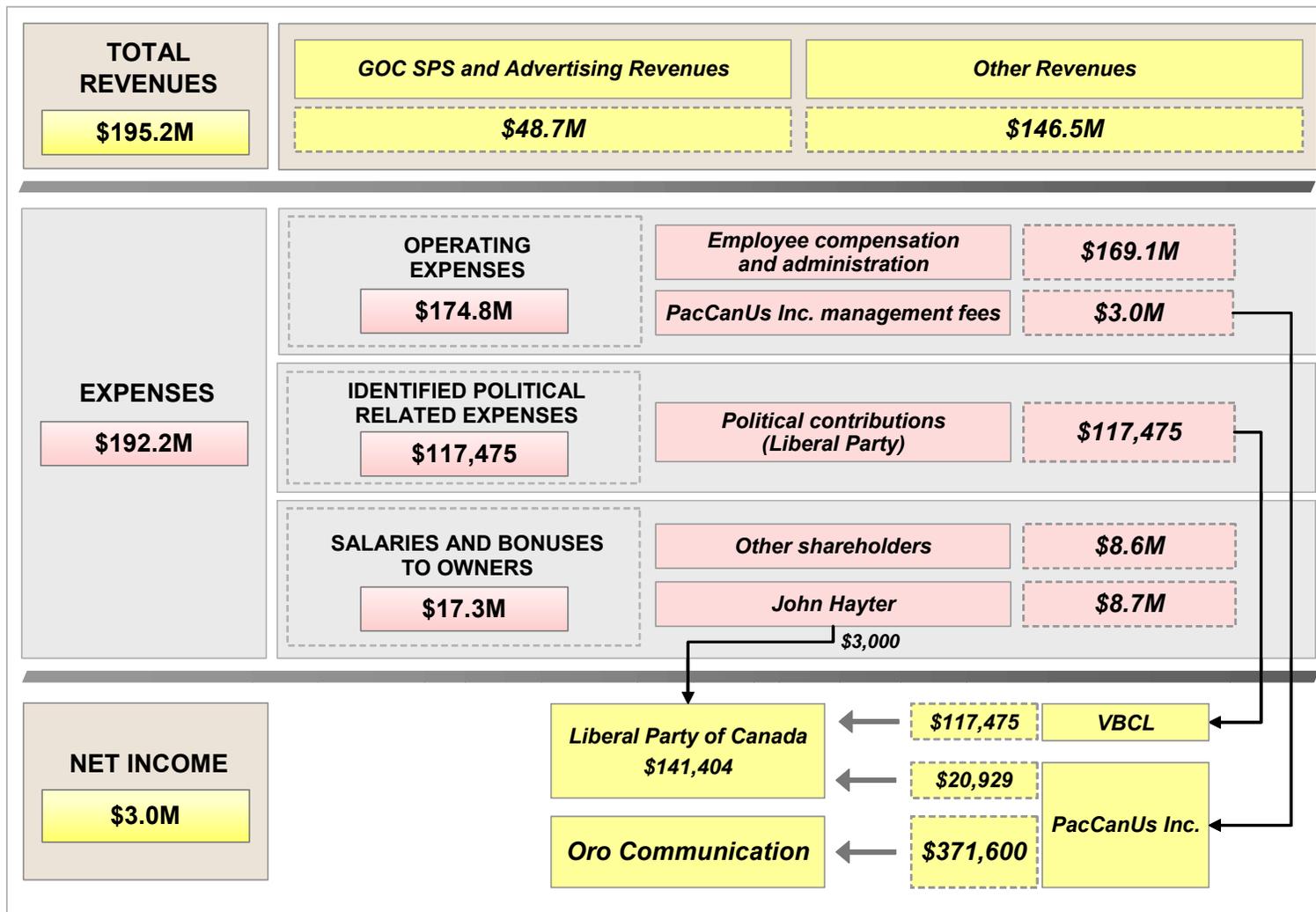


Table 27: BCP Ltée (BCP) – Flow of Funds (1996 to 2003)

TOTAL REVENUES	<i>GOC SPS and Advertising Revenues</i>	<i>Other Revenues</i>	<i>Dividends received in 1994 and 1995</i>
\$90.7M	\$37.8M¹	\$51.3M	\$1.6M
GAINS ON SALE	GAINS ON SALE OF INVESTMENTS (1996)		
\$12.4M			
EXPENSES	OPERATING EXPENSES		
	\$73.1M		
	IDENTIFIED POLITICAL RELATED EXPENSES		
\$80.3M	\$97,720	<i>Political contributions (Liberal Party)</i>	\$97,720
	SALARIES AND BONUSES TO OWNERS		
	\$1.6M	<i>Salaries paid to Yves Gougoux</i>	\$1.6M
NET INCOME	Dividends paid to shareholders		
\$22.8M	\$20.3M²		

¹ This amount includes \$15.4M of advertising revenues from Crown Corporations.
² This amount includes \$18.8M of dividends paid in 1994, 1995 and 1996.

5.3 Agency Payments to or on Behalf of Political Parties

We reviewed the available books and records of the agencies and related companies and individuals and the Elections Canada website to compile a list of payments made by these communication agencies, companies and individuals to or on behalf of political parties. Table 28 lists political contributions made purportedly, both directly to the parties or indirectly, on behalf of a political party.

**Table 28: Agency Political Contributions
(\$ millions)**

<u>Company and related parties</u>	<u>Contribution to the Liberal Party of Canada</u>		<u>Total</u>
	<u>Direct</u>	<u>Indirect¹</u>	
Lafleur	42,213		42,213
Gosselin	5,407		5,407
Groupaction ²	170,854	1,763,587	1,934,331
PluriDesign Canada Inc. ³	53,190		53,190
Expour/Groupe Polygone	23,361		23,361
Groupe Everest ⁴	194,832		194,832
Coffin	29,300		29,300
Vickers & Benson ⁴	151,659		151,659
BCP	<u>97,720</u>		<u>97,720</u>
Total	<u>\$768,536</u>	<u>\$ 1,763,587</u>	<u>\$2,532,123</u>

¹ Per allegation by Mr. J. Brault, the actual amount paid to Liberal Party is unknown.

² Includes Alleluia Design and Impact Splash.

³ Includes J. Corriveau and his family.

⁴ Includes related companies and individuals.

5.4 Contract Management by Agencies

As noted in Sections 8 through 16 of this report, we have reviewed available agency records with respect to specific events. Our review disclosed certain potential irregularities, improprieties and contracting issues in the management of contracts both by the government departments and by the agencies. As more fully described in the individual sections we noted agencies which:

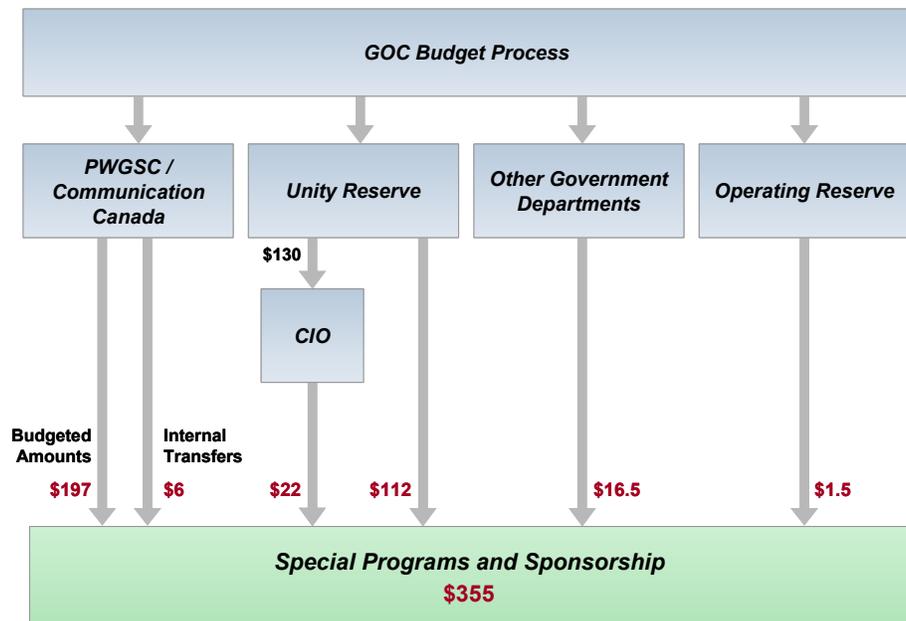
- Billed more hours for professional services to PWGSC than were recorded in agency records for a specific event;
- Billed PWGSC for fees that were already paid by PWGSC via the AOR;
- Billed PWGSC based on approved estimated costs (a fixed fee) while the contract required billing based on approved hourly rates and actual hours incurred; and
- Billed costs incurred to PWGSC before a contract was in place.
- Charged 17.65% commission on work sub-contracted to related parties;
- Passed on to PWGSC a substantial mark-up on promotional items purchased from a related supplier;
- Billed sub-contractor labour costs at full agency contract labour rates instead of the actual cost plus 17.65%;
- Did not obtain competitive quotes for sub-contracted work in excess of \$25,000;
- Charged a finder's fee or commission to a sponsoree while collecting a commission from PWGSC for being the communication agency;

6.0 DETAILED FINDINGS – SPECIAL PROGRAMS AND SPONSORSHIP CONTRACTS

6.1 Source of Funds

As noted in Section 3.1, our analysis of GOC funding has determined that during the period April 1, 1994 through to March 31, 2004, \$355 million was allocated and transferred to APORS/CCSB/Communication Canada for the payment of SPS contracts. The following diagram depicts the sources of the \$355 million.

Table 29: Sources of Funds Received for SPS Contracts (\$ millions)



6.1.1 Operating Budget – \$197 million

As noted in the diagram above, one of the primary sources of funding utilized for the payment of SPS contracts was funding provided in the PWGSC/Communication Canada annual budget.

Summarized below is our understanding, on an overview basis, of the yearly budget process:

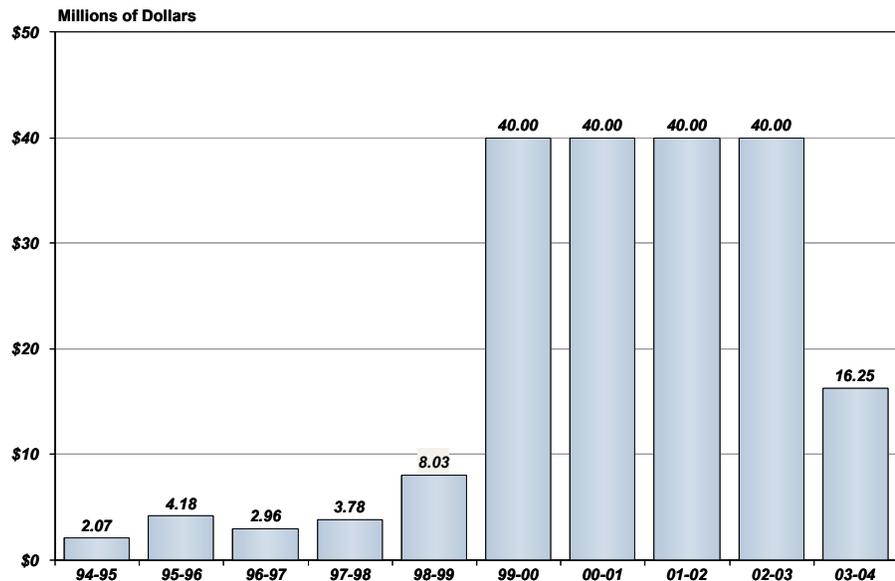
Government of Canada Budgeting Departmental Funding Process

1. In October/November in advance of the new fiscal year commencing April 1, departments make submission to the Treasury Board ("TB") seeking annual approval of departmental budgets. This process is referred to as the Annual Reference Level Update ("ARLU"). The ARLU process then provides the basis for the establishment of the Departmental Main Estimates which form part of the¹ GOC's expenditure plan, referred to as the Budget/Fiscal Framework.
2. Each year Parliament approves Departmental Main Estimates which establish a departmental spending authority (votes).
3. In addition, Parliament receives "Reports on Plans and Priorities" ("RPPs") which include the individual expenditure plans for each department.
4. The amount of approved spending authority that a department utilizes is controlled by TB. For example, while Parliament may have approved \$2 billion as the departmental authority for PWGSC, TB may withhold a portion of that authority and only provide PWGSC with authority to spend \$1.9 billion. This withheld amount is referred to as a "frozen allotment."
5. We understand that based on the spending authority provided by the TB, PWGSC would establish the budget for each branch and in turn the budgets would be established for the various operations within the branch.
6. If during a year a department wishes to increase its spending authority, it makes a submission to TB. If there exists a frozen allotment of the original Parliamentary Spending Authority sufficient to satisfy the increased funding request, then a submission to Parliament is not required. If a frozen allotment does not exist, then a Supplemental Estimate is tabled with Parliament to provide the department with increased spending authority.

¹ As per TB Statement of Evidence, Exhibit P-10.

The following Table summarizes annual PWGSC/Communication Canada operating budget funding for SPS:

Table 30: Summary PWGSC/Communication Canada Yearly Budget Funding for SPS Initiatives



The amounts identified for GOC fiscal years 1994-95 to 1997-98 represent the operating budget for “Special Programs” within APORS/CCSB included in the PWGSC Operating Budget. We have identified this amount based on an examination of accounting records related to the Special Program account.

In 1998-99, the original budget amount available for SPS was increased from \$3.03 million to \$8.03 million. This additional \$5 million was received because of a submission to TB and related Supplementary Estimate which received Parliamentary approval.

The amounts noted above for 1994-95 to 1998-99 were not specifically identified in the details of the budget included in the RPPs provided to Parliament.

For GOC fiscal years 1999-00 to 2001-02, TB Approvals indicated that \$40 million per year of funding was provided to PWGSC for purposes of SPS. This \$40 million was included in the overall budget for CCSB but the budget for CCSB did not

specifically identify or segregate the \$40 million in the yearly RPP for PWGSC which was provided to Parliament for use in approval of the overall GOC budget.

In September 2001, CCSB's functions were transferred to Communication Canada. The yearly funding of \$40 million for SPS was also transferred based on TB documentation. Communication Canada's RPP did not distinguish the \$40 million from the remainder of its planned spending identified in the RPP for 2002-03. In GOC fiscal 2003-04, the RPP provided to Parliament identified that \$30.25 million was included in the Main Estimates for Communication Canada related to contributions in support of activities and projects to increase the understanding and appreciation of Canadian identity and to develop social awareness. This amount was subsequently reduced by \$11.0 million due to the establishment of a frozen allotment by TB. The amount was then also reduced by \$3 million as the result of Supplemental Estimates which transferred the funds to a newly established Grants Program. The above adjustments resulted in the identified funding of \$16.25 million for 2003-04.

6.1.2 Intra-Departmental Transfers – \$6 million

As depicted in Schedule 1 to this report, during the period GOC fiscal 1994-95 to GOC fiscal 2003-04 we have identified two years in which APORS/CCSB received additional funding for SPS from other branches within PWGSC and we noted three years in which funds available for SPS were transferred to other branches within PWGSC.

In GOC fiscal years 1997-98 and 1998-99, \$2.0 million and \$8.48 million respectively were transferred from other branches within PWGSC to APORS/CCSB for payment of SPS. The above funding for both years originated from the Corporate Services Reserve Account within PWGSC. Neither Mr. Guité nor Mr. Tremblay had authority over the Corporate Services Reserve Account. Documentation available for our review for 1998-99 indicates that \$7.1 million of the \$8.48 million was approved by the Deputy Minister Ran Quail of PWGSC based on his discussions with Minister Gagliano of PWGSC.

In GOC fiscal 1999-00, \$3.075 million of the transfers from previous years were repaid by CCSB resulting in a reduction in the overall available funding for sponsorship initiatives.

For GOC fiscal 2000-01 and 2001-02 there were additional withdrawals of \$139,900 and \$1.12 million respectively of funding that were transferred out of funds available for sponsorship initiatives. Of this amount \$1.11 million was transferred to fund advertising contracts not considered part of the Special Programs account. The remaining balance was utilized to repay expenses incurred outside the Special Programs account.

6.1.3 Funds Directly from Unity Reserve – \$112 million

TB supplied an accounting for allocations from the Unity Reserve. A copy of this schedule is provided as Appendix G to this report. The TB Summary identified some \$660.1 million as having been drawn from the Unity Reserve for GOC fiscal years 1995-96 through 2001-02. Of this amount, \$111.8 million was allocated to PWGSC, via TB Submissions, for the payment of SPS.

The following table summarizes our findings related to the process under which the funds were allocated from the Unity Reserve to PWGSC for purposes of funding SPS:

Table 31: Summary of Yearly Allocations From the Unity Reserve to PWGSC for SPS Initiatives

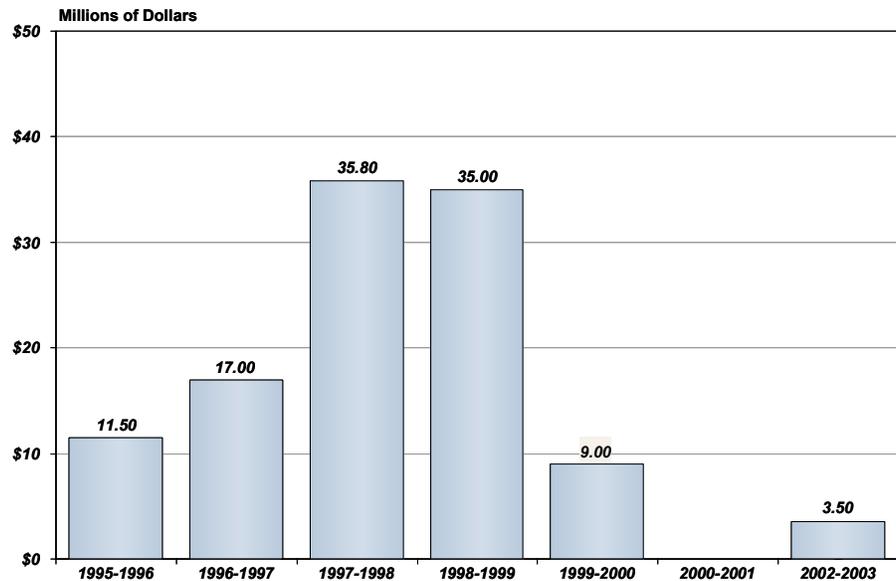
Year	Amount	Vehicle	Authorization	Comments
1995-96	\$11,500,000	Two separate submissions to TB <ul style="list-style-type: none"> • \$10 million; and • \$1.5 million 	<ul style="list-style-type: none"> • Prime Minister (“PM”) of Canada¹ • TB 	<ul style="list-style-type: none"> • TB approvals indicate funding related to “Canadian unity related advertising and Public Opinion research activities”
1996-97	\$17,000,000	Single TB submission for \$17 million in 1996-97 and \$17 million in 1997-98 <ul style="list-style-type: none"> • Frozen allotment for 1996-97 	<ul style="list-style-type: none"> • PM of Canada¹ • TB 	<ul style="list-style-type: none"> • Submission identified funding requirements as related to “communications priorities of the Government of Canada.” • Included list of specific projects to be funded
1997-98	\$35,800,000	Two separate submissions to TB <ul style="list-style-type: none"> • \$17 million (TB inclusion in PWGSC Main Estimates 1997-98); and • \$18.8 million (via Supplemental Estimate) 	<ul style="list-style-type: none"> • PM of Canada¹ • Parliament • TB • PM of Canada¹ • Parliament 	
1998-99	\$35,000,000	TB approved inclusion in PWGSC’s Main Estimates under “Other Operating Costs”	<ul style="list-style-type: none"> • PM of Canada² • Parliament • TB 	<ul style="list-style-type: none"> • Parliament approved Main Estimate • Funding received via 2 memoranda from the Privy Council Office (“PCO”) to TB indicating PM approved allocations in the amounts of \$17 and \$18 million respectively
1999-00	\$9,000,000	TB submission <ul style="list-style-type: none"> • Frozen allotment 	<ul style="list-style-type: none"> • PM of Canada¹ • TB 	
2001-02	\$3,500,000	TB Submission then Supplementary Estimates	<ul style="list-style-type: none"> • PM of Canada² • Parliament • TB 	<ul style="list-style-type: none"> • Authorization via two PCO memoranda (\$2 and \$1.5 million respectively) confirming PM’s approval
<u>\$111,800,000</u>				

¹ Authorization from the Prime Minister was obtained via his signature approving the TB submission.

² The Prime Minister’s authorization is indicated in a PCO memorandum.

Table 32 illustrates the yearly allocations directly from the Unity Reserve to PWGSC for SPS contracts.

Table 32: Summary of Yearly Allocations Directly From the Unity Reserve to PWGSC for SPS Contracts



The TB Submissions did not describe the allocations as being for the “Sponsorship Program” but typically described the purposes of the allocations as being for the communication priorities of the GOC, including public opinion research, advertising and participation in special events related to unity and/or federal presence. In early TB Submissions (1996-97 to 1997-98), the SPS to be funded were identified in attachments to the TB Submissions.

6.1.4 Canadian Information Office – \$21.9 million

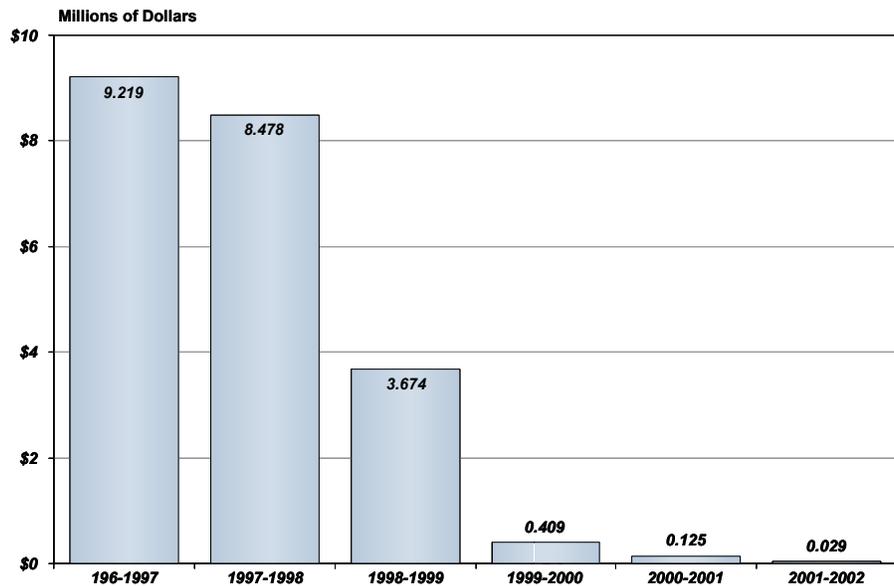
From the total of \$660.1 million identified as having been allocated from the Unity Reserve for GOC fiscal years 1994-95 through to 2003-04, \$130 million was allocated to the CIO. Based on documentation available for our review, during the years when SPS received funds from the CIO, the CIO’s total operating budget was funded from the Unity Reserve.

The CIO was created in July 1996 and initially was a department included in the portfolio of the Minister of Canadian Heritage. The CIO was transferred to the portfolio of the Minister of PWGSC effective June 1998. We note the following quote from the CIO's 1999-00 RPP regarding the CIO's mandate:

“The Government of Canada has mandated the CIO to provide Canadians with information on Canada and the Government of Canada's initiatives, programs and services. To do so, the CIO helps develop and carry out projects aimed at strengthening communications between the government and citizens.”

Table 33 illustrates the yearly funding provided to PWGSC by CIO with respect to SPS contracts:

Table 33: Summary of Yearly Funding to PWGSC from CIO for SPS Contracts



This funding when added with direct transfers from the Unity Reserve, indicates that in total, at a minimum, \$133.73 million of funding provided for SPS originated from the Unity Reserve. Other departments that received Unity Reserve allocations also provided funding for SPS (see Section 6.1.5).

Typically transfers from the CIO were documented via a letter of agreement between APORS/CCSB and the CIO and identified the events/activities to be funded. The letters of agreement were typically approved by the Executive Director of APORS/CCSB (Mr. Guité or Mr. Tremblay) and the Director of Finance, Administration and Human Resources for the CIO.

When examining the supporting documentation for amounts transferred from the CIO, in fiscal 1996-97, we noted that the CIO allocated funds totaling \$3 million for seven events which were also identified in the 1996-97 \$17 million allocation to PWGSC from the Unity Reserve. This “duplicate” funding request was not identified in either the TB Submission used to obtain the allocation from the Unity Reserve for PWGSC, or in the funding sought from the CIO.

6.1.5 Other GOC Departments – \$16.5 million

Our review determined that between fiscal 1995-96 and 2002-03, SPS received approximately \$16.5 million from other GOC departments with respect to contracts/directions put in place by APORS and later CCSB. Table 34 illustrates the transfer of funds from other GOC departments to PWGSC for SPS contracts:

**Table 34: Funds Received from Other GOC Departments for SPS Contracts
(\$ Millions)**

<i>PWGSC / Communication Canada</i>	<i>Unity Reserve</i>	<i>Operating Reserve</i>	<i>Other Government Departments</i>
			<i>Heritage Canada</i> \$8.51
			<i>Canada Economic Development for Quebec Regions</i> \$0.44
			<i>Millennium Bureau of Canada</i> \$1.62
			<i>Industry Canada</i> \$1.52
			<i>Human Resources Development Canada</i> \$1.30
			<i>Health Canada</i> \$1.15
			<i>Other / Unknown</i> \$2.08
			\$16.5
Special Programs & Sponsorship			
\$355			

The funds received from the various departments have been determined by assessing available documentation as maintained by PWGSC. Transfers from other departments were recorded as “recoveries” in the PWGSC accounting system and used as an offset against sponsorship initiatives paid for out of the Special Programs account.

The available documentation supporting the transfers is inconsistent. In certain instances the correspondence between the Department and PWGSC is available and the specific project to which the recovery relates can be determined. In other instances the internal accounting records available from PWGSC identify the source of the recovery without identifying the specific project. In other instances documents indicate that a recovery has occurred however the specific project and department to which the recovery relates are not available.

When documentation did exist regarding the transfer between the department and PWGSC, typically some explanation was provided in the letter of agreement between the department and PWGSC regarding the purpose of the transfer. For

example, in 1998-99, the \$1.3 million transfer from Human Resources Development Canada is identified as relating to “research, production and media placement for the first ad of the Community Information Newspaper Program...” Similar justification was provided for the transfers from Health Canada of \$1.0 million and \$1.4 million from Industry Canada in the same year.

6.1.6 Operating Reserve – \$1.5 million

Within the “Fiscal Framework” of the GOC, in addition to the Unity Reserve there existed an “Operating Reserve.” In December 1995, TB received a submission from PCO, Heritage Canada and PWGSC seeking as part of an overall submission of \$6 million, “an amount of \$1.5 million to fund advertising and public opinion research related to national unity and strengthening the federation” on behalf of PWGSC. The submission was signed by the Prime Minister. At the time of the TB Submission, the \$25 million in the Unity Reserve for 1995-96 was no longer available as it had previously been allocated. As a result the Operating Reserve was utilized as the source of funds for the TB Submission.

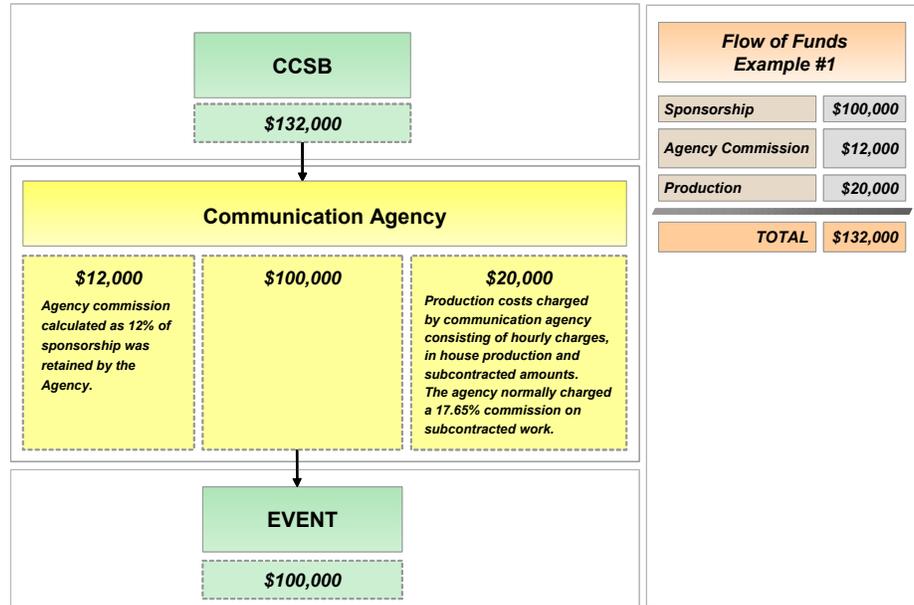
6.2 Use of Special Programs and Sponsorship Funds

6.2.1 Flow of Funds to the Agencies

Prior to April 1, 1998, SPS events were contracted between APORS/CCSB and the communication agencies.

Sponsorship contracts were signed between CCSB and the communication agency and normally included amounts for sponsorship, agency commissions generally calculated as 12% of sponsorship value, and a production budget for the agency. Contracts during this period were usually for multiple events. Table 35 illustrates the contract arrangement and flow of funds to the agency.

Table 35: Contract Arrangement and Flow of Funds Prior to April 1, 1998

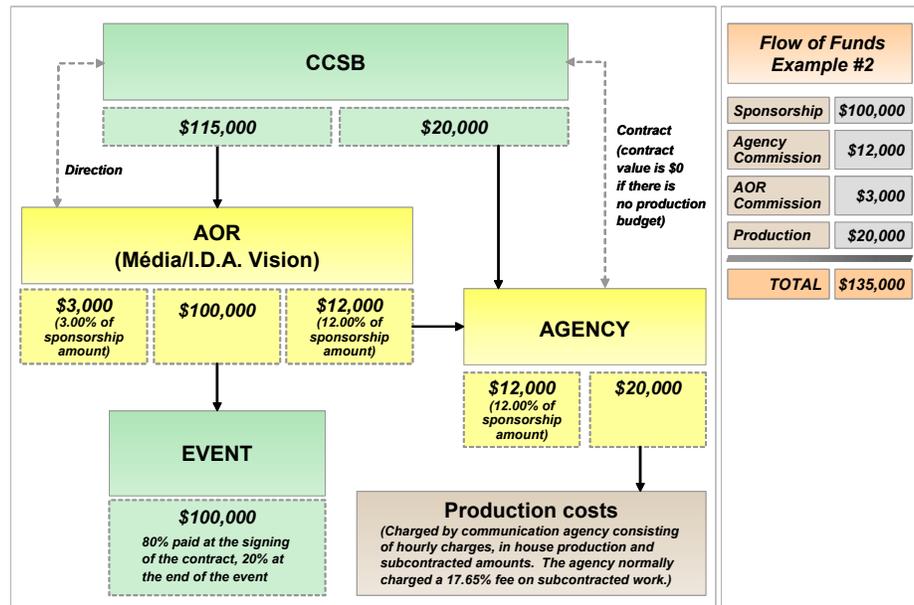


Subsequent to March 31, 1998 an AOR became part of the SPS contracting process. Typically the AOR acted as a central purchasing agent for the purchase of media space. In February 1995, Genesis Media was chosen as the AOR for the GOC and fulfilled that role only for advertising contracts undertaken by the government.

On March 31, 1998 CCSB signed a contract with a newly chosen AOR, Média/I.D.A. Vision, to retain its services as AOR for both advertising and SPS events. Until May 27, 2002, when a temporary moratorium on sponsorship was implemented by the GOC, "Directions" were signed between CCSB and the AOR for the sponsorship value, plus the communication agency's commission (12% of sponsorship value), plus AOR commissions (3% of sponsorship value) for sponsorship in excess of \$25,000, and "Contracts" were signed between CCSB and the communication agency for budgeted production. If no production was budgeted for an event a zero dollar contract was issued to the communication agency because the agency still had responsibility to manage the event, for which it received its 12% commission. Sponsorship events under \$25,000 could be contracted directly with the communication agency

without the involvement of the AOR. For such instances, the contract with the communication agency would typically include a sponsorship amount, 12% communication agency commission, and a production budget. The AOR contract arrangement and flow of funds is illustrated in Table 36.

Table 36: AOR SPS Contract Arrangement and Flow of Funds – April 1, 1998 to May 27, 2002

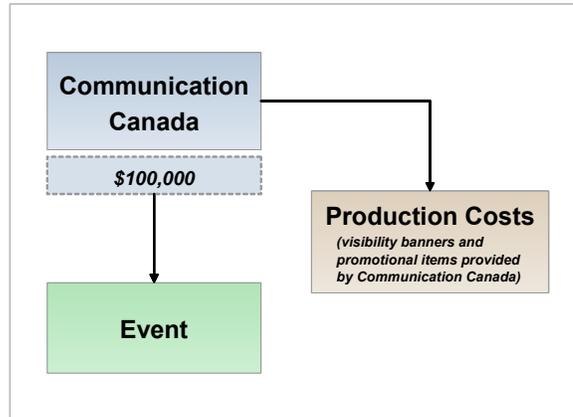


The sponsorship program was suspended between May 27 and July 2, 2002.

Between July 3, 2002, when the sponsorship program was reinstated and December 13, 2003, when the program was permanently abolished, the communication agency and AOR were eliminated from the sponsorship process and sponsorship was managed by the GOC internally through Communication Canada.

Table 37 illustrates the contract arrangement and flow of funds after July 3, 2002, when Communication Canada began managing the SPS contracts.

Table 37: Communication Canada Management of Sponsorship Began in 2002



6.2.2 SPS Contracts

We have identified contracts totaling \$332 million which have been issued for sponsorship, public opinion research, special projects, advertising, and the purchasing of promotional items. As previously stated, we have grouped these contracts together and for purposes of this report refer to these as SPS contracts. We have grouped these contracts because they were funded from resources allocated to APORS, subsequently CCSB and then, effective September 2001, Communication Canada.

The SPS expenditures were accounted for in the "Special Programs" account maintained by PWGSC prior to the transfer of CCSB functions to Communication Canada in September 2001. The Special Programs account was under the control of Mr. Guité during his tenure as the head of APORS/CCSB and later under Mr. Tremblay's control during his tenure.

These expenditures are not the same as typical GOC advertising which were contracted for by APORS/CCSB, but not paid by them. The payments for typical GOC advertising activities were approved by the GOC department for which the advertising was conducted. Section 7 of this report discusses advertising funding and expenditures.

We have compiled a detailed list of the SPS "Contracts" and "Directions" issued by APORS, CCSB and Communication Canada from 1994-95 to 2003-04. We have included this list as

Schedule 2 of this report, sorted by year and contract number. Schedule 3 provides the same information sorted by agency. Our starting point was a list of 721 sponsored events (1997-01) as prepared by PWGSC, and a database (1997-04) maintained by Communication Canada.

In order to compile this list, we have relied on available information consisting of internal listings as prepared by APORS, CCSB and Communication Canada and PWGSC's copies of the "Contracts" and "Directions" issued to the agencies. To the extent that these documents did not provide enough information on the nature of services or sponsored events, reference was made to the Requisition for Goods and Services, and Construction (Form 9200) accompanying the contracts, and related correspondence located in the government files and agency files.

For the GOC years 2001-02 to 2003-04 we have prepared the list based solely on the database provided by Communication Canada.

The list presented in Schedule 2 includes "Contracts" and "Directions" starting with EN771 (for 1994-95 to 1998-99), EP043 (for 1999-00 to 2001-02) or 6C523 (for 2002-03). We understand these to represent the SPS "Contracts" and "Directions". For 2003-04 we do not have contract numbers as these were not included in the Communication Canada database.

6.2.3 Nature of SPS Expenditures

Our review of the nature of the SPS expenditures indicates funds were disbursed by the GOC for a broad range of activities and events. The description of the intended uses of the funds which were used for the SPS contracts are described in the documents noted below.

A TB Submission request signed by the Minister of Public Works and Government Services, Diane Marleau and the Prime Minister, Jean Chrétien, and approved on November 21, 1996 (Exhibit P-12(A) Tab C) noted as "Background" in Annex A that:

“The result of the Québec referendum is a clear indication that the federal government must continue to promote its programs and services. It is important that the government continue to use resources to oversee the planning, research and development of its position on all government programs and services, and that they be communicated throughout Canada”

The TB Submission requested additional resources of \$17 million for each of 1996-97 and 1997-98. Annex A noted that:

“the additional resources will be allocated in the following three areas:

- public opinion research for focus group testing, primary research and tracking initiatives;
- extend the media buys of planned campaigns to attain a greater reach and impact on the intended audience; and
- the participation in special events in the promotion of programs and services to ensure an efficient and effective federal presence throughout Canada.”

Further the TB Submission “Précis” notes that:

“The Department of Public Works and Government Services Canada (PWGSC) is seeking additional funding totaling \$34M, over the next two years, to support the communications priorities of the Government of Canada.

The Advertising and Public Opinion Research Sector (A&PORS) at PWGSC is responsible for, amongst other activities, fulfilling a Government of Canada initiative to promote all its programs, policies and services by means of sponsorship through selective events across Canada. The events are determined on the basis of audience, visibility, timing and potential impact on the government’s programs used at such events.”

The November 2003 Report of the Auditor General to the House of Commons states that the “Sponsorship Program” was created in 1997 and that:

“Sponsorships were arrangements in which the Government of Canada provided organizations with financial resources to support cultural and community events. In exchange, the organizations agreed to provide visibility by, for example, using the Canada wordmark and other symbols such as the Canadian flag at their events, and on promotional material.” (paragraph 3.6)

“Sponsorships were intended to encourage a positive perception of the government through its association with popular events and organizations in fields such as sports and culture. They would also increase the federal presence and visibility in communities across Canada.” (paragraph 3.7)

Our comments on each of the categories of events as identified in Table 8 in Section 3.2.3 are provided in Appendix F.

6.3 Analysis of Selected Special Programs and Sponsorship Contracts

6.3.1 SPS Contracts Sampled

As indicated in Section 6.2.2, Kroll prepared a listing of SPS contracts. This listing includes the amounts noted in the contracts for media purchases, sponsorship, agency commissions and production costs.

Of the \$332 million referred to in Section 3.2.1, \$305 million related to contracts managed by communication agencies. Table 38 provides a breakdown of these contracts by year and highlights the years from which Kroll drew its sample for detailed review.

Table 38: Summary by Year of Contract Details for Agency Managed Contracts (\$ millions)

<u>Year</u>	<u>Media Purchases</u>	<u>Sponsorship</u>	<u>Agency Commission¹</u>	<u>Production</u>	<u>Total</u>
1994-95	0.74	-	0.13	1.20	2.07
1995-96	6.79	1.76	1.38	12.03	21.96
1996-97	1.55	2.38	0.29	26.57	30.79
1997-98	4.75	22.58	2.91	21.31	51.55
1998-99	6.27	23.61	4.63	26.90	61.41
1999-00	-	25.84	3.78	17.86	47.48
2000-01	-	25.41	3.76	10.81	39.98
2001-02	-	30.25	4.54	5.77	40.56
2002-03	-	8.00	1.19	0.11	9.30
Total	<u>\$20.10</u>	<u>\$139.83</u>	<u>\$22.61</u>	<u>\$122.56</u>	<u>\$305.10</u>

Table 39 identifies the value of SPS contracts by contract category that were examined by Kroll.

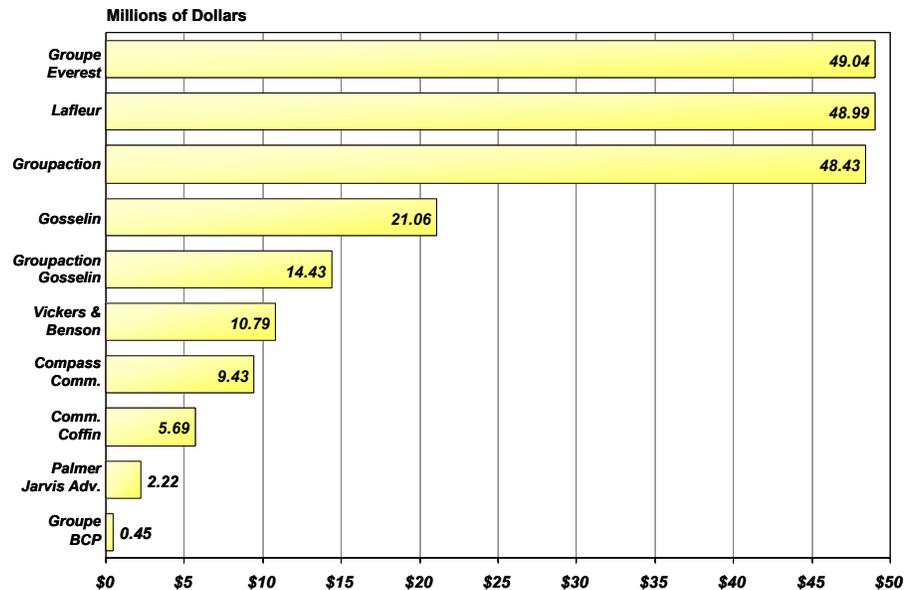
Table 39: Contract Details for Selected Contracts Reviewed by Kroll (\$ millions)

<u>Year</u>	<u>Media Purchases</u>	<u>Sponsorship</u>	<u>Agency Commission</u>	<u>Production</u>	<u>Total</u>
1996-97	1.05	0.96	0.10	22.74	24.85
1997-98	4.36	22.41	2.82	20.34	49.93
1998-99	0.55	22.41	3.43	26.28	52.67
1999-00	-	24.70	3.63	17.51	45.84
2000-01	-	24.30	3.63	9.32	37.25
Total	<u>\$5.96</u>	<u>\$94.78</u>	<u>\$13.61</u>	<u>\$96.19</u>	<u>\$210.54</u>

Table 40 identifies the communication agencies involved with the contracts reviewed by Kroll.

¹ Agency commission includes commissions contracted in relation to media purchases as well as commissions related to sponsorship.

Table 40: Agencies Receiving Contracts Reviewed by Kroll



6.3.2 Sponsorship Amounts

For 1996-97 and 1997-98, prior to the AOR becoming involved in the sponsorship contracting process, for the contracts selected by Kroll for review, Kroll reviewed all of the invoices associated with the contract including those related to the sponsorship portion.

In 1996-97 almost all of the contracts issued for SPS treated the full amount of the contract as a contract for production. Our review of invoices from the agencies to PWGSC indicated that in many instances amounts invoiced were supported by invoices received by the agencies from the sponsoree. For purposes of summarizing our review of contracts we have classified such items as sponsorship rather than production. In total for 1996-97 we classified \$4.42 million more as sponsorship than was indicated in the contracts including:

- \$880,000 related to funds paid to support various professional auto races;
- \$536,000 invoiced in relation to the Montréal Expos; and
- \$575,000 invoiced in relation to the Montréal Canadiens.

For the years 1998-99 to 2000-01, where the sponsorship amount was primarily paid through the AOR, Kroll has examined in detail the AOR's receipt and payment of sponsorship funds. Sponsorships greater than \$25,000 managed by the communication agency, and sponsorships less than \$25,000 that included a production component, were also reviewed.

For the purposes of preparing our analysis we have categorized as sponsorship only those amounts invoiced to the communication agency by the sponsoree identified in the contract. Further, production and other costs invoiced to the communication agency by the sponsoree indicated in the contract were treated as subcontracted amounts. All supporting invoices indicating payment to a third party were considered to have been subcontracted by the communications agency.

6.3.3 Agency Commissions and Production Costs

Kroll undertook a detailed review of the invoices and underlying supporting documents for billings to PWGSC in respect of our sample of selected SPS contracts. Our sample included substantially all of the contracts that included a production amount for the 1996-97 through 2000-01 fiscal years.

Our detailed review of the available invoices and underlying supporting documents for our sample of contracts provided further insight into amounts earned as commissions and amounts spent by agencies on related party and non-related party subcontracts. Table 41 summarizes our findings.

Table 41: Summary of Selected SPS Contracts Reviewed by Kroll

	(\$ millions)					Total	Percentage
	96-97	97-98	98-99	99-00	00-01		
Sponsorships	5.38	18.39	22.79	24.74	24.30	95.60	45.4%
Amounts Invoiced for Work Done by Agencies and Related Parties							
Agency Sponsorship Commissions	0.61	2.16	2.73	2.95	2.92	11.37	
Agency Production	1.60	3.72	.91	.15	-	6.38	
Agency Time Charges	3.58	5.72	7.00	5.35	1.58	23.23	
Agency Commissions ¹	1.17	2.40	1.85	1.72	1.05	8.19	
Subcontracted to Related Party	<u>1.52</u>	<u>1.95</u>	<u>3.01</u>	<u>1.85</u>	<u>1.09</u>	<u>9.42</u>	
Total Invoiced for Work Done by Agencies and Related Parties	<u>8.48</u>	<u>15.95</u>	<u>15.50</u>	<u>12.02</u>	<u>6.64</u>	<u>58.59</u>	<u>27.8%</u>
Amounts Invoiced for Work Done by Third Party							
Subcontracted to Unrelated or Unknown Party	10.96	8.51	9.58	7.41	4.05	40.51	
AOR Commission	-	-	0.65	0.69	0.71	2.05	
Media Purchases	<u>0.03</u>	<u>6.77</u>	<u>3.93</u>	<u>0.84</u>	<u>1.35</u>	<u>12.92</u>	
Total Invoice for Work Done by Third Party	<u>10.99</u>	<u>15.28</u>	<u>14.16</u>	<u>8.94</u>	<u>6.11</u>	<u>55.48</u>	<u>26.4%</u>
Unspent Amounts or Invoices Not Located	-	0.31	0.22	0.14	0.20	0.87	0.4%
Total Contract Value	<u>\$24.85</u>	<u>\$49.93</u>	<u>\$52.67</u>	<u>\$45.84</u>	<u>\$37.25</u>	<u>\$210.54</u>	<u>100.0%</u>

Based on our sample, amounts invoiced by the communication agencies for work done by the agency or a party related to the agency totaled \$58.59 million or 27.8% of the value of the contracts reviewed.

We have grouped the amounts invoiced for work by the communications agencies into several categories. Our general findings in relation to each of these categories is set out below. Details on each contract reviewed are included in our production analysis working papers that support this report.

Communication Agency Sponsorship Commissions – \$11.37 million

Sponsorship commissions for the selected contracts reviewed by Kroll summarized in Table 41 averaged 11.6% of the sponsorship amount for 1996-97 and 1997-98 and 12% in subsequent years.

¹ Includes commissions on subcontracted amounts and media purchases.

Agency Production – \$6.38 million

Included in our review of agency production were invoices for 471 maquettes invoiced by Lafleur at \$2,750 each for a total of \$1,295,250 and a total of \$1,740,000 invoiced by Groupaction related to the production of television vignettes as part of the Nagano Olympics initiative. The Nagano contract was invoiced on a fixed price basis.

Agency Time Charges – \$23.23 million

Our review of agency time charges noted that some invoices provided details of the name of the individual, their position, hourly rate and hours invoiced and/or provided time sheets in support of the hourly charges. In other instances, however, the position and number of hours charged were indicated but not the name of an individual. In still other instances, only a lump sum was indicated for “professional services” or “honoraires.”

We also noted some cases where details of hourly rates were set out on the invoice or could be calculated from the available information but the hourly rates charged were not in accordance with the hourly rate stipulated in the contract.

Agency Commissions – \$8.19 million

Commissions of \$8.19 million were charged on subcontracted amounts and media placement of which \$1.2 million was paid in relation to work subcontracted to related parties.

Amounts Subcontracted to Related Parties – \$9.42 million

For the contracts in our sample we determined that \$9.42 million was subcontracted to related parties and \$40.51 million to parties which did not appear to be related to the communication agency or who were otherwise unknown.

Media Purchases – \$12.92 million

Included in the \$12.92 million of media purchases are charges primarily for the purchase of television time and billboard space. Purchases of media aimed at a local or regional market have been included as subcontracted amounts.

We were unable to locate invoices for \$870,000. This represents 0.4% of the total value of the contracts selected for review. We do not know whether this difference relates to invoices that are no longer available in the records of PWGSC or whether amounts contracted were actually underspent.

Our detailed finding for each agency are set out in Section 8 through 16 of this report.

**6.4 November 2003
Report by the
Auditor General**

The Auditor General in her report dated November 2003 noted,

“From 1997 until 31 March 2003, the Government of Canada spent about \$250 million to sponsor 1,987 events... Over \$100 million of that (40 percent of total expenditures) was paid to communications agencies as production fees and commissions.”

We understand from the Auditor General that the \$100 million amount ascribed to production fees and commissions paid to agencies was calculated, with reference to the sponsorship database maintained by PWGSC, as follows:

- 15% of total contracted sponsorship amount, plus
- 100% of total contracted production amount.

The PWGSC database was adjusted by the OAG to allocate amounts contracted in 1996-97 between sponsorship and production.

Kroll has prepared a summary by year based on the actual contract details for the same group of contracts commented upon by the Auditor General. As noted in Table 42, a total of \$19.92 million was contracted as agency commissions, a further \$81.05 million was contracted as production costs and \$6.94 million related to media placement for a total amount of agency commissions, production costs and media placement of \$107.91 million. Total contracted amounts were \$253.58 million compared with the estimate of \$250 million referred to in the Auditor General's report.

Table 42: Summary of Contracted Amounts for Contracts Referred to in the Report of the Auditor General (\$millions)

	<u>Sponsorship</u>	<u>Agency Commission¹</u>	<u>Media Placement</u>	<u>Production</u>	<u>Total Agency Commissions, Media Placement and Production</u>	<u>Total</u>
1996-97	-	-	-	0.33	0.33	0.33
1997-98	22.53	2.90	4.75	20.03	27.68	50.21
1998-99	22.58	3.75	2.19	26.18	32.12	54.70
1999-00	25.84	3.78	-	17.67	21.45	47.29
2000-01	25.40	3.77	-	10.81	14.58	39.98
2001-02	30.22	4.53	-	5.78	10.31	40.53
2002-03	19.10	1.19	-	0.25	1.44	20.54
Total	<u>\$145.67</u>	<u>\$19.92</u>	<u>\$6.94</u>	<u>\$81.05</u>	<u>\$107.91</u>	<u>\$253.58</u>

6.5 Agency Selection – Special Programs and Sponsorship

6.5.1 February 1995

In February 1995, five agencies, Groupe Everest, BCP, Compass, Palmer Jarvis and Vickers & Benson, were chosen on the second day of the Heritage Canada selection process. In an undated memo Mr. Guité indicates that these five agencies “will be included on the PWGSC/APORS qualified supplier list for possible communication/advertising contracts on behalf of APORS.”

Of the \$305.1 million in agency managed contracts, \$1.7 million were awarded prior to February 1995. Of this amount \$865,000 in contracts were awarded to Genesis Media, the AOR. Many of the contracts making up the balance of \$1.7 million were awarded to agencies which supply public opinion research. A listing of these contracts is attached as Schedule 13.

The next selection process for PWGSC was finalized June 30, 1995 at which time Consortium Lafleur was chosen.

¹ Agency commission includes commissions contracted in relation to media purchases as well as commissions related to sponsorship.

6.5.2 February – June 1995

Between February and June 1995, SPS contracts were awarded totalling \$4.6 million. Of this amount contracts totalling \$714,430 were awarded to one of the five agencies chosen in February while \$2.49 million, or 54% of the value of the contracts awarded were given to Lafleur. Table 43 sets out the dollar value of the contracts awarded between February and June 1995.

Table 43: Summary by Agency of SPS Contracts Awarded between February and June 1995

	<u>Total Contracts (\$ millions)</u>	<u>Percentage (%)</u>
Agencies Chosen in February 1995		
Palmer Jarvis	0.31	6.7%
Compass	0.18	3.9%
Groupe BCP	0.15	3.3%
Groupe Everest	<u>0.07</u>	<u>1.5%</u>
	<u>0.71</u>	<u>15.4%</u>
Other Agencies Receiving Contracts		
Lafleur	2.49	54.2%
Gingko Group	0.46	10.0%
All Others	<u>0.94</u>	<u>20.4%</u>
	<u>3.89</u>	<u>84.6%</u>
Total Contracts	<u>\$4.60</u>	<u>100.0%</u>

The contracts awarded during this period are set out in detail in Schedule 14.

6.5.3 July 1995 – April 1997

Consortium Lafleur was selected in the June 1995 competition and included Lafleur Communication together with Compass, Natcom Publicité, Freeman Roger Battaglia and SKS Advertising.

Between July 1995 and April 1997, when PWGSC concluded another selection process, SPS contracts were awarded to agencies as summarized in Table 44 and are set out in detail in Schedule 15.

Table 44: Summary by Agency of SPS Contracts Awarded between July 1995 and April 1997

	<u>Total Contracts (\$ millions)</u>	<u>Percentage (%)</u>
Agencies Selected in 1995		
Lafleur	34.17	48.30%
Groupe Everest	18.74	26.48%
Vickers & Benson	6.00	8.48%
Groupe BCP	5.72	8.08%
Palmer Jarvis	1.90	2.69%
Compass	0.25	0.35%
Genesis Media	<u>0.02</u>	<u>0.03%</u>
	<u>66.80</u>	<u>94.41%</u>
Other Agencies Receiving Contracts		
Groupaction	1.30	1.84%
All Others	<u>2.65</u>	<u>3.75%</u>
	<u>3.95</u>	<u>5.59%</u>
Total Contracts	<u>\$70.75</u>	<u>100.00%</u>

6.5.4 April 1997 – May 2001

In April 1997 PWGSC concluded an agency selection process in which ten agencies were chosen to provide corporate sponsorship services and event marketing services on behalf of PWGSC. The contracts awarded between April 1997 and March 2001, are summarized below.

Table 45: Summary by Agency of SPS Contracts Awarded between May 1997 and March 2001

	<u>Total Contract (\$ millions)</u>	<u>Percentage (%)</u>
Agencies Chosen in February 1995		
Groupe Everest	22.10	23.61%
Vickers & Benson	9.36	10.00%
Compass	6.26	6.69%
Groupe BCP	0.45	0.48%
Palmer Jarvis	<u>0.37</u>	<u>0.40%</u>
	<u>38.54</u>	<u>41.18%</u>
Agency Chosen June 1995		
Lafleur Communication	<u>8.69</u>	<u>9.28%</u>
Agencies Chosen in April 1997		
Groupaction	18.92	20.22%
Gosselin	13.23	14.13%
Groupaction/Gosselin	9.35	9.99%
Communication Coffin	3.20	3.42%
Publicité Martin	<u>0.48</u>	<u>0.51%</u>
	<u>45.18</u>	<u>48.27%</u>
Others Receiving Contracts		
	<u>1.19</u>	<u>1.27%</u>
Total Contracts	<u>\$93.60</u>	<u>100.00%</u>

A detailed listing of contracts awarded during this period is set out in Schedule 16.

6.5.5 May 2001

In May 2001 PWGSC held an agency selection process to issue standing offers “for PWGSC-CCSB Sponsorship, marketing, communication, advertising, and creative production services”.

Nine agencies were chosen to receive standing offers including:

- Armada
- Bristol Group
- Coffin
- Compass
- Everest
- Gosselin
- Groupaction
- Lafleur

-
- TNC Multicom Inc.

7.0 DETAILED FINDINGS – ADVERTISING

7.1 Sources of Funds for Advertising Contracts Funds for advertising are allocated to departments through the budgeting process described in Section 4.1.

7.2 Use of Advertising Funds **7.2.1 Flow of Funds to the Advertising Agencies**

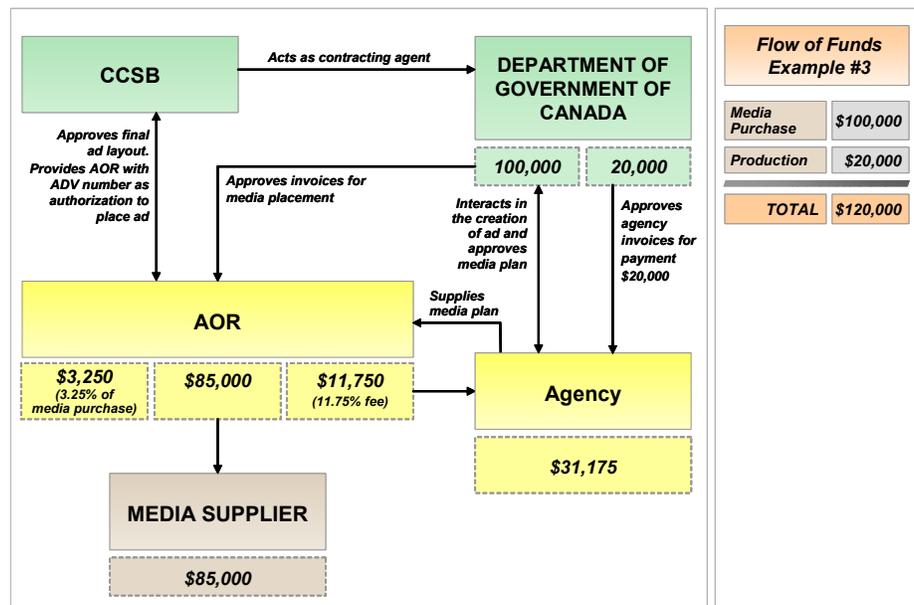
Unlike SPS contracts, where the procurement of the services and the approval of invoices was managed by the same group of individuals within CCSB, in advertising there is also a role played by the advertising staff within each government department.

Advertising for departments is funded from departmental budgets. Those individuals working on a departmental advertising project report to others within their own department. This division of duties provides an extra level of checks and balances within advertising activities that was absent in the management of SPS contracts. The exceptions were those departments, including CIO and CMHC, which in some instances used CCSB to manage their advertising contracts as well providing contracting services.

In addition to issuing a Direction to the AOR for media purchases CCSB contracted with the agency selected for the department through the agency selection process for production work. The department then worked directly with the agency in creation of both the advertisement and the media plan.

The diagram below sets out the flow of funds and the areas of responsibility for CCSB and for the government department as it relates to advertising.

Table 46: Areas of Responsibility for CCSB and Government Departments Related to Advertising



Directions for media purchases were primarily with the AOR, either Genesis Media (from April 1, 1994 to March 31, 1998) or Média/I.D.A Vision (from April 1, 1998 to March 31, 2003). The communication agency managing a particular advertising contract was responsible for preparing a media plan which outlines the location, duration and type of media to be purchased. Payment for this work was in the form of a commission of 11.75% calculated on the gross amount of the media purchases. Payment was made to the communication agency by the AOR. The communication agency commission of 11.75% and the AOR commission of 3.25%, a total of 15% was included in the gross cost of media purchases billed to the GOC by the AOR.

7.2.2 Advertising Contracts

Kroll has prepared the listing of advertising contracts primarily from listings of contract information provided electronically by the OAG and listings of contract information located in the records produced by PWGSC to the COI. Additional contract information has been derived from listings produced by the departments and agencies, listings produced by Mr. David Myer, former Director General of Procurement at CCSB, the

working papers of Ernst and Young related to their report entitled "Advertising and Public Opinion Research Sector, Compliance Audit of Contracting Processes, Final Report" dated November 1996, and contracts located during the course of our review. Where details in the contract differed from those on the listings, we have amended the listings. Our detailed listing summarized by year (Schedule 8), by department (Schedule 9) and by agency (Schedule 10) are attached.

7.2.3 Nature of Advertising Expenditures

Of the approximately \$1.1 billion contracted for advertising between April 1, 1994 and March 31, 2003, 53% was contracted for media purchases. Media purchases included the purchasing of print advertising space in newspapers, billboard space, magazine advertising, and television and radio airtime.

The balance of the advertising contracting was for agencies' services including production costs and advertising sponsorships relating to the advertising program. Sponsorships were undertaken by GOC departments and funded from department budgets, for example, Health Canada provided funds for the Senior Community Garden Program in 1998, the International Year of Older Persons. Production costs could include such items as time spent meeting with departmental representatives to discuss concepts, preparation and presentation of mockups and/or scripts, revisions to the message or approach, presentation of actors or models to be used and the overseeing of ad production and focus group testing.

We understand from discussions with department personnel that contracts for advertising services were often issued on an "as and when requested" basis, thus the entire amount contracted was not necessarily expended by the department.

7.3 Analysis of Selected Advertising Contracts

7.3.1 Advertising Contracts Sampled

Kroll undertook a detailed review of invoices and underlying

supporting documents for a sample of selected advertising contracts taken from our detailed listing. Our sample was chosen judgmentally and included contracts awarded to those agencies that received a large dollar amount of the advertising contracted by the GOC, those agencies that received significant sponsorship contracts and those departments that had significant, by dollar value, advertising contracts. The sample included the years 1996-97 through 2001-02.

Table 47 lists the contract values by year for the contracts in the Kroll sample:

**Table 47: Summary of Selected Advertising Contracts Reviewed by Kroll
(\$ millions)**

<u>Fiscal Year</u>	<u>Total</u>
1996-97	10.11
1997-98	16.17
1998-99	5.30
1999-00	4.30
2000-01	3.67
2001-02	<u>6.77</u>
Total	<u>\$46.32</u>

A detailed listing of the contracts reviewed is attached as Schedule 11. Table 48 provides the listing of contracts reviewed summarized by agency.

**Table 48: Summary of Selected Advertising Contracts
Reviewed by Kroll by Agency
(\$ millions)**

<u>Agency</u>	<u>Total</u>
Vickers and Benson	21.83
BCP	5.50
Groupaction	4.69
Armada	3.38
Compass	2.10
Gingko	2.04
Groupaction Gosselin	1.47
Groupe Everest	1.46
Gosselin	1.20
Ensemble Consortium	1.00
Lafleur	0.83
Coffin	<u>0.82</u>
Total	<u>\$46.32</u>

Table 49 provides a breakdown of the same information in Table 47 and Table 48 by GOC department.

**Table 49: Summary of Selected Advertising Contracts
Reviewed by Kroll by Department
(\$ millions)**

<u>GOC Department</u>	<u>Total</u>
Canadian Tourism Commission	22.51
Canada Information Office	6.79
PWGSC	4.68
Industry Canada	3.24
Finance	3.00
Health Canada	1.79
Federal Office for Regional Development (Québec)	1.05
Defense	1.00
Heritage Canada	0.76
Canadian Firearms Centre	0.74
Revenue Canada	0.44
Human Resources Development	<u>0.32</u>
Total	<u>\$46.32</u>

7.3.2 Analysis of Advertising Agency Services Including Production Costs

Advertising Service Costs

Table 50 summarizes our findings for the sample of advertising service contracts reviewed by Kroll.

Table 50: Summary of Selected Advertising Contracts Reviewed by Kroll (\$ millions)

	<u>Total</u>	<u>Percentage</u>
Sponsorships	0.46	1.0%
Amounts Invoiced for Work Done by Agencies and Related Parties		
Agency Sponsorship Commissions	0.05	
Agency Production	0.03	
Agency Time Charges	2.88	
Agency Commissions on Subcontracted Amounts	1.92	
Amounts Subcontracted to Related Party	<u>3.46</u>	
Total Invoiced for Work Done by Agencies and Related Parties	8.34	18.0%
Subcontracted to Unrelated or Unknown Parties	26.00	56.1%
Unspent Amounts or Invoices Not Located	<u>11.52</u>	<u>24.9%</u>
Total Contract Value	<u>\$46.32</u>	<u>100.0%</u>

With reference to Table 50 we note the following:

Sponsorship

Agencies' invoices to GOC departments included invoices in relation to sponsorship or visibility initiatives undertaken by GOC departments. Our sample included:

- \$150,000 invoiced by Lafleur to Health Canada in relation to the sponsorship by Health Canada of the Senior Community Garden Program for 1998. Lafleur charged the department a commission of 15% (\$22,500).
- \$200,000 invoiced by Groupaction in relation to the sponsorship of the "J'arrête, j'y gagne" initiative in 2001. Groupaction contracted with PWGSC for this sponsorship and received a 12% commission.
- \$27,500 invoiced by Armada to the Federal Office for Regional Development (Québec) for "publicité et

visibilité pour le Gouvernement du Canada lors de L'International Bromont du 20 au 24 juin 2001".

Agency Sponsorship Commissions - \$0.05 million

Where a sponsorship commission was indicated on the invoice to the GOC the commission rate was 12% to 15%.

Agency Time Charges – \$2.88 million

Agencies' invoices to GOC departments included invoices for time charges totaling \$2.88 million. In some instances the rate charged to PWGSC agreed with the stipulated rates in the contracts, in others there was insufficient detail available for us to make a determination. In still other instances, the invoices from the communication agency provided only a lump sum amount for agency fees based on approved estimates rather than actual hours worked.

Commissions on Subcontracted Amounts - \$1.92 million

For the selection of contracts reviewed by Kroll, payments to the communication agencies for commissions on subcontracted amounts totaled \$1.92 million.

Amounts Subcontracted to a Related Party - \$3.46 million

For the contracts in our sample, we determined a total of \$3.46 million was spent for services subcontracted to related parties compared to \$26.0 million sub-contracted to unrelated parties.

We noted 13 contracts involving nine agencies where commissions were charged on amounts subcontracted to related parties. In total for our sample \$440,000 was paid in commissions for work subcontracted to related parties.

Amounts Subcontracted to Unrelated or Unknown Parties - \$26 million

For the sample reviewed, payments to unrelated or unknown parties totaled \$26 million or 56% of the contracted amount. During the course of our review we noted:

-
- In 2001, PWGSC entered into a contract with Compass totaling \$1.6 million for which the scope of work was described as “Management production and design for the development of “Canada House Pavillions” at the “Jeux de la Francophonie” and the “World Athletics competition”. Of the \$1.6 million, \$1.35 million was subcontracted to unrelated parties.

Compass invoiced PWGSC for costs associated with the Canada Pavillion at the 2001 Grey Cup as well as the two events noted in the contract.

Jeux de la Francophonie, the World Athletics Championships and the Grey Cup were events which also received support through SPS contracts.

- In January 1998 Industry Canada entered into a \$1.2 million dollar contract with Gosselin for the sponsorship of “Campaign SOS 2000”. Gosselin invoiced Industry \$1,110,000 for sponsorship and \$90,000 as agency commission. Gosselin in turn subcontracted substantially all of the \$1,110,000 sponsorship to Cossette. Cossette’s billing to Gosselin was primarily for media placements.

Unspent Amount or Invoices Not Located

We were unable to locate invoices related to \$11.5 million or 24% of the contract value of our sample. In some instances we were able to determine from other documentation or with the assistance of the departments that the full amount of the contract had not been spent.

8.0 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 157146 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-416(A) and P-416(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 1), 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

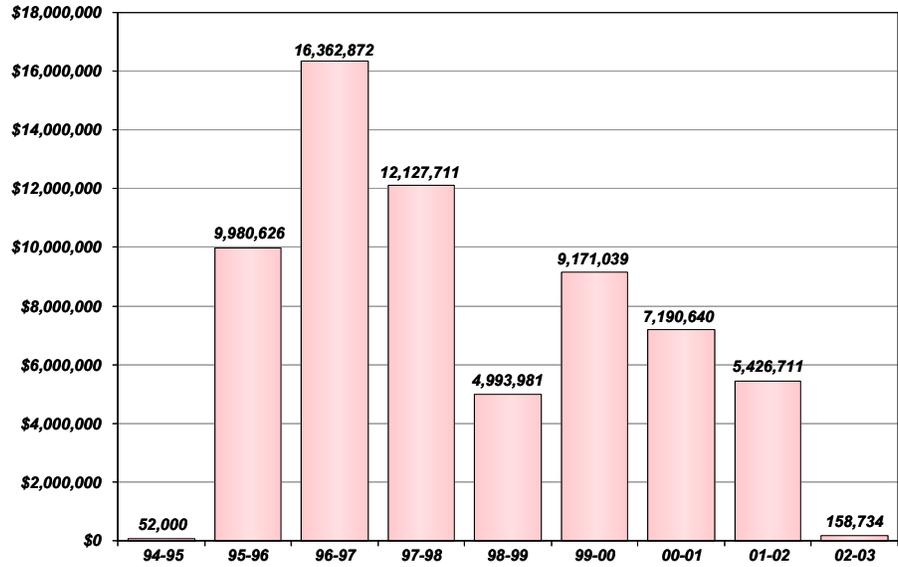
8.3.1 SPS Contracts

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

Year	Contracts with Lafleur Communication	Directions with Genesis Media or Média/I.D.A. Vision	Total
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>-</u>	<u>33,200,338</u>
Total	<u>\$45,567,334</u>	<u>\$19,896,980</u>	<u>\$65,464,314</u>

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.

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.

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	57,83
Expos de Montréal	261,216	1,768.3	294,91
Grand Prix du Canada (Formule 1)	232,174	1,008.5	178,34
GRC - 125 ^{ème} anniversaire Internationaux de Tennis Junior de Repentigny	62,250	2,425.8	396,35
Musée Grande Cascapédia	11,490	427.8	76,11
Série du siècle (Société Canadienne des Postes)	22,500	71.0	12,77
Société du Vieux-Port (Centre ISCI)	40,500	111.5	23,83
	<u>180,000</u>	<u>237.5</u>	<u>30,57</u>
Total	<u>\$954,130</u>	<u>7,092.0</u>	<u>\$1,070.74</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 subcontractors 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 Dézert.

The amounts billed by Publicité Dézert 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

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.

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 \$828,135¹, \$71,874 and \$73,285, respectively.²

A substantial part of Xylo's work from Lafleur Communication was sub-contracted 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 actually invoiced by Xylo to Lafleur Communications, based on Xylo's accounting records, is \$1,385,478.

² 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

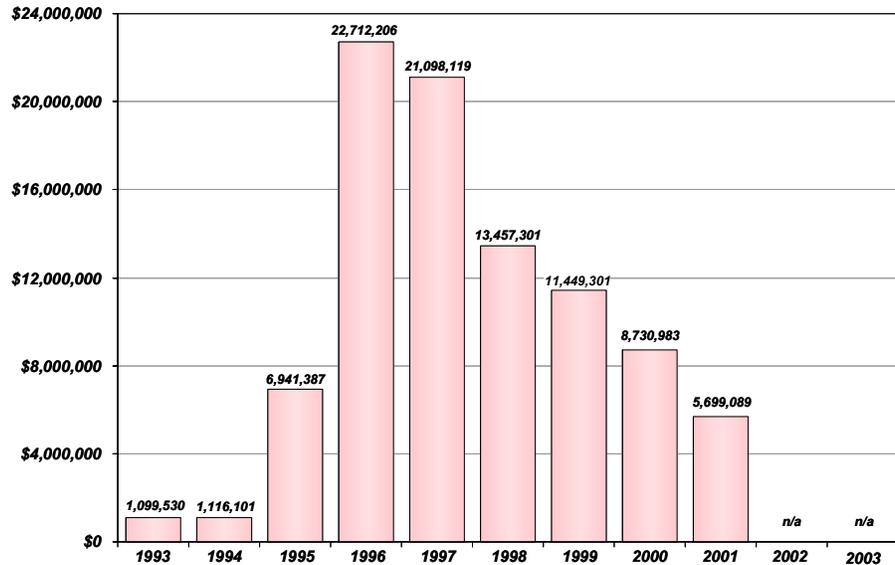
8.5.1 Lafleur Communication

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 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:

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

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	334,775	-	21,834	66,334
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.

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

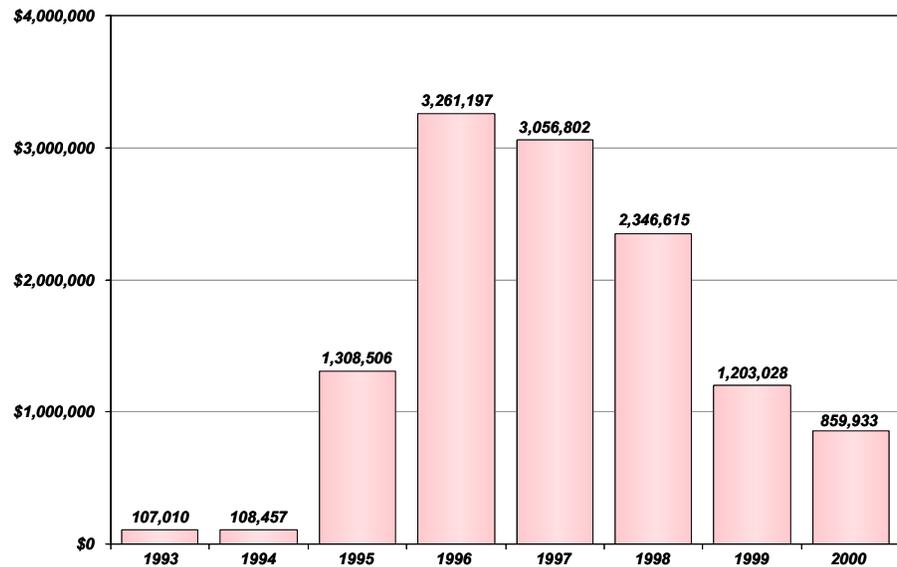
Based on their personal tax returns, T4 slips or other information provided to the COI, Mr. J. Lafleur, Ms Dyane Lafleur, Ms Julie Lafleur and Mr. Eric Lafleur received from

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>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 18 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.

9.0 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

<u>Year</u>	<u>Contracts with Gosselin Communications</u>	<u>Directions with Genesis Media or Média/I.D.A. Vision</u>	<u>Total</u>
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</u>	<u>Genesis Media or</u>	<u>Total</u>
-----------------	-------------------------	--------------

	<u>Communications</u>	<u>Média/I.D.A. Vision</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 U1020-7-0072 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.

9.4 Management of Contracts

9.4.1 General Observations

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

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 sub-contractor 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.

**10.0 DETAILED
FINDINGS -
GROUPACTION**

**10.1 Business
Background**

Mr. J. Brault and his wife, Ms Joane Archambault, started Groupaction Marketing Inc. ("Groupaction") in 1982.

The main operating companies were:

- a) Groupaction Marketing – the primary advertising and marketing company; and
- b) Alléluia Design ("Alléluia") – a company operating in the field of artistic and graphic design.

In November 1997 Groupaxion Nouveaux Médias ("Groupaxion") was incorporated to operate in the fields of interactive media and web sites.

In May 1998 Impact Splash was incorporated to operate in the field of communication services related to events and sponsorships, both GOC and private sector.

Effective October 1, 1998, Mr. J. Brault, through 3522610 Canada Inc., purchased the assets of Gosselin Communications Stratégiques. This numbered company operated as Groupaction Gosselin Communication Stratégique and changed its operating name in 2002 to Gosselin Relations Publiques. We have referred to this company as "Groupaction/Gosselin".

In October 1999 Communication Groupdirect was incorporated. In January 2001 this company purchased Jean Lafleur Communication Marketing.

In addition to the above-noted operating companies, three separate entities were created for the purchase of the four buildings occupied by Groupaction and related operating companies.

Exhibits C-291(A), pages 3-7 contain corporate organization charts for the Brault group of companies.

10.2 GOC Selection Process

10.2.1 *Groupaction's First Dealings with the GOC*

In January 1995 Groupaction secured their first advertising contract from CRTC.

Groupaction was awarded its first SPS contract on July 2, 1996, well before the APORS SPS qualification process referred to in Table 67.

10.2.2 *Selection Process*

The Table below sets out the known agency selection competitions where Groupaction was the winning agency or member of the winning consortium. A listing of all known selection competitions has been compiled and produced as Exhibits P-416(A) and P-416(B).

Table 67: Groupaction – Agency Selection Competitions

Final Report Date	GOC Department	Winning Agency or Consortium
1993	Justice	A consortium including Groupaction
December 9, 1994	Canadian Radio-Television and Telecommunications Commission	Groupaction
May 17, 1995	Revenue Canada – Québec Region	Groupaction
November 23, 1995	Agriculture and Agrifoods Canada	P.A.C.T. (Palmer Jarvis / Groupaction / Compass Communications / The Ongoing Partnership)
April 28, 1997	PWGSC (SPS Contracts)	Groupaction and 9 other agencies
November 26, 1997	Treasury Board Secretariat of Canada	Groupaction
February 2, 1999	Department of National Defence	Groupaction
September 1, 2000	Canada Information Office	Ensemble Consortium (Coffin / Groupaction / Vickers & Benson / Compass / Palmer Jarvis)
December 13, 2000	Industry Canada	Vision 4 (Acart / Palmer Jarvis / Groupaction)
May 11, 2001	PWGSC	Groupe Everest; Gosselin; Lafleur; Groupaction; TNC Multicom; Compass; Armada; Bristol; Coffin ¹

10.3 Contracts with GOC

10.3.1 SPS Contracts

Companies owned by Mr. J. Brault managed SPS contracts with a total value of \$89.5 million. Groupaction managed \$60.8 million, Groupaction/Gosselin \$23.1 million and Lafleur Communication \$5.6 million. Of the total contract value of \$89.5 million, \$60.1 million was contracted via directions with Média/I.D.A. Vision.

SPS Contracts with Groupaction

Between 1996-97 and 2001-02 GOC fiscal years, Groupaction managed SPS contracts with a total value of \$60.8 million, as detailed in Exhibit C-292 pages 2 to 23 and summarized in the following Table:

¹ Groupaction/Gosselin, Lafleur Communication and Groupaction were all controlled by Jean Brault at the time of the PWGSC competition.

**Table 68: SPS Contracts Managed by Groupaction for
GOC Fiscal Years 1996-97 to 2001-02**

<u>Year</u>	<u>Contracts with Groupaction</u>	<u>Directions with Média/I.D.A. Vision</u>	<u>Total</u>
1996-97	830,000	-	830,000
1997-98	10,404,058	-	10,404,058
1998-99	3,884,960	\$10,924,345	14,809,305
1999-00	2,065,260	9,629,750	11,695,010
2000-01	1,105,648	13,208,900	14,314,548
2001-02	<u>1,644,994</u>	<u>7,130,000</u>	<u>8,774,994</u>
Total	<u>\$19,934,920</u>	<u>\$40,892,995</u>	<u>\$60,827,915</u>

SPS Contracts with Groupaction/Gosselin

Between 1998-99 and 2002-03 GOC fiscal years, subsequent to its purchase by Brault, Groupaction/Gosselin managed SPS contracts with a total value of \$23.1 million, as detailed in Exhibit P-271, pages 2 to 21 and summarized in the following Table:

**Table 69: SPS Contracts Managed by Groupaction/Gosselin for GOC
Fiscal Years 1998-99 to 2002-03**

<u>Year</u>	<u>Contracts with GRP</u>	<u>Directions with Média/I.D.A. Vision</u>	<u>Total</u>
1998-99	1,921,310	264,500	2,185,810
1999-00	3,788,940	3,831,660	7,620,600
2000-01	3,640,041	1,909,000	5,549,041
2001-02	412,595	6,177,915	6,590,510
2002-03	<u>14,070</u>	<u>1,099,975</u>	<u>1,114,045</u>
Total	<u>\$9,776,956</u>	<u>\$13,283,050</u>	<u>\$23,060,006</u>

SPS Contracts with Lafleur Communication

Between January 17, 2001, when it was purchased by Brault, and the 2002-03 GOC fiscal year, Lafleur Communication Marketing managed SPS contracts with a total value of \$5.6 million, as detailed in Exhibit P-216 pages 2 to 42 and summarized in the following Table:

Table 70: SPS Contracts Managed by Lafleur Communication Marketing For GOC Fiscal Years 2000-01 to 2002-03

<u>Year</u>	<u>Contracts with Lafleur</u>	<u>Directions with Média/I.D.A. Vision</u>	<u>Total</u>
2000-01	2,240	-	2,240
2001-02	94,701	5,332,010	5,426,711
2002-03	<u>3,484</u>	<u>155,250</u>	<u>158,734</u>
Total	<u>\$100,425</u>	<u>\$5,487,260</u>	<u>\$5,587,685</u>

10.3.2 Advertising Contracts

Between 1994-95 and 2002-03, Groupaction acted as communication agency for advertising contracts with a maximum value of \$112.1 million. A significant portion of these contracts were awarded in 2000-01 (\$47.3 million) and in 2001-02 (\$31.5 million). A complete list of the advertising contracts is included as Schedule 10 of this report.

Of the \$112.1 million, at least \$81.2 million represented media placement. As the communication agency, Groupaction would receive a commission of 11.75% of the media purchased.

The remaining \$30.1 million represents production costs consisting of Groupaction fees and mark-ups, payments to third party suppliers and other direct costs.

10.4 Management of Contracts

10.4.1 Findings on SPS Contracts

Significant SPS Events Managed by Groupaction

In total \$42.3 million, or 69.5% of all SPS contracts managed by Groupaction from 1996-97 to 2001-02 were related to Groupe Polygone and Expour events. The percentage increases to 87.3% for the years 1999-2000 to 2001-02, as depicted by the following Table:

Table 71: SPS Contracts Managed by Groupaction Related to Groupe Polygone and Expour Events for GOC Fiscal Years 1996-97 to 2001-02

Year	Total SPS Contracts	Contracts Related to Groupe Polygone and Expour Events	
		\$	%
1996-97	830,000	-	0.0%
1997-98	10,404,058	\$3,538,458	34.0%
1998-99	14,809,305	8,388,499	56.6%
1999-00	11,695,010	9,891,000	84.6%
2000-01	14,314,548	12,597,900	88.0%
2001-02	<u>8,774,994</u>	<u>7,889,592</u>	<u>89.9%</u>
Total	<u>\$60,827,915</u>	<u>\$42,305,449</u>	<u>69.5%</u>

A detailed listing of events is attached as Schedule 4. Other significant SPS contracts managed by Groupaction include the following:

- Nagano Olympic Games - \$5.95 million;
- Community information newspapers – \$3.6 million;
- Opportunity analysis (3) – \$1.63 million;
- CD-Rom Dessin Animé (Mimi) - \$1.3 million (plus another EP041 contract included in “advertising” based on the contracting vehicle utilized); and
- Grand Prix du Canada - \$1.26 million.

Remuneration from Groupe Polygone and Expour

As set out on Schedule 20, Groupaction and related companies received \$2.1 million from Groupe Polygone, Expour or other companies controlled by Mr. Luc Lemay. The accounting records of the Groupaction companies reflect these funds as fees for a variety of services, including, for example, management services for the outdoor sporting shows or salons promoted by Lemay.

Commissions on Amounts Sub-Contracted to Related Parties

In order to execute an SPS contract, Groupaction would utilize the services of its various affiliated companies to fulfill the contract requirements, particularly Alléluia and Groupaxion.

Services provided to Groupaction by Alléluia and Groupaxion would typically be billed to the GOC with a commission of 17.65% added to the amount of the invoices.

Work Invoiced to GOC Not Supported by Subcontractor Records

The nature of services described in the inter-company billings were often vague and the basis of how the billing amounts were determined were not indicated.

For example Alléluia issued an invoice to Groupaction for production fees of \$38,000 associated with the 1998 Grand Prix of Canada (Exhibit C-309 pages 64 to 67). The invoice describes fees associated with research, models, mounting and production of materials for miscellaneous signs.

Docket summaries from Alléluia's accounting system provide details as to the nature of work performed and hours charged by individuals on any specific project or docket. The docket summary associated with the Grand Prix invoice does not indicate any specific costs associated with the type of activities listed in the invoice (research, models, production of materials for various posters) nor does it provide for any hours worked by employees of Alléluia.

Groupaction charged the GOC a 17.65% commission on this invoice.

Failure to Obtain Quotes

SPS contracts required Groupaction to obtain 3 quotes on sub-contracted amounts over \$25,000.

Based on our review of documents, Groupaction did not obtain three quotes on sub-contracted amounts of \$25,000 or more

prior to 2001. During the 2001-02 GOC fiscal year, consistent with our understanding of stricter management by PWGSC and Communication Canada, Groupaction started sending quotes to PWGSC for the production budgets associated with the Groupe Polygone and Expour events.

10.4.2 Findings on Advertising Contracts

Failure to Obtain Quotes

Advertising contracts required Groupaction to obtain three quotes on sub-contracted amounts of \$25,000 or more. Based on the advertising contracts reviewed by Kroll, it appears that Groupaction did not obtain three quotes on sub-contracted amounts over \$25,000 prior to 2001.

Commissions on Amounts Sub-Contracted to Related Parties

Based on the advertising contracts reviewed by Kroll, Groupaction billed the GOC a mark-up on work performed by Alléluia, an artistic and graphic design company associated with Groupaction.

10.5 Findings in Relation to Specific Events

Based on our review of specific SPS events managed by Groupaction, we have the following findings:

10.5.1 Summary Comments – Events Associated with Groupe Polygone & Expour

- Expour and Groupe Polygone generated over \$25 million in profits before income taxes during the years they received SPS funding (as detailed in Section 11.4 of this report). During that same period of time revenues from the GOC represented 35.5% of Groupe Polygone revenues and 46.1% of Expour revenues, as detailed in Exhibit P-329 items 1, 2 and 11.
- Mr. L. Lemay's companies paid a total of \$4.8 million to PluriDesign Canada.

-
- Mr. L. Lemay's companies paid a total of \$2.1 million to Mr. J. Brault's companies.
 - The amount of sponsorship decreased significantly starting in 2000-01 for some of the salon events (detailed in Section 1.2 of Appendix F), while the GOC continued to receive the same visibility.

10.5.2 *Almanach du Peuple*

- The stated purpose of this event was to provide visibility to the GOC in the *Almanach du Peuple*, an annual publication edited and produced by Groupe Polygone. Examples of the visibility obtained through this sponsorship initiative are included at Appendix J of this report.
- For the content received, the GOC paid a rate per page that was higher than the advertising rate published by the *Almanach du Peuple*.
- For the 2002 edition of the *Almanach du Peuple*, the Government of Québec purchased approximately 80 pages of content (78 pages plus the inside front cover and spine) at a cost of \$58,000, representing a cost per page of \$725. For the same edition of the *Almanach du Peuple*, the GOC purchased 116 pages of content at a total cost of \$525,000 (this amount does not include the production budget and the commissions paid to the agencies), representing a cost per page of approximately \$4,500, more than six times the price per page paid by the Government of Québec.

10.5.3 *Magazines Nationaux & Régionaux*

- The stated purpose of these events was to provide visibility to the GOC in magazines edited, published or managed by Groupe Polygone. Examples of the visibility obtained through these sponsorship initiatives are included in Appendix I of this report.

-
- Based on our review of the available documentation, we have not identified any document that would show how the value of the visibility received by the GOC was determined.

Mr. L. Lemay sent a letter to Groupaction on July 26, 2002 describing the visibility to the GOC for the “Magazines Nationaux – Régionaux” events. Some of the visibility identified actually relates to visibility provided under other SPS events (i.e. Radio capsules), as demonstrated in Appendix I of this report. It appears the value of this visibility was claimed for two distinct SPS events.

10.5.4 Journal de Montréal & Journal de Québec

- Based on the information reviewed, the visibility related to this event was obtained by the publication of 21 separate posters distributed in the *Journal de Montréal* and the *Journal de Québec* on 21 separate occasions. At a total cost of \$2.9 million for the GOC, this represents approximately \$137,000 per poster. An example of the visibility obtained through this sponsorship initiative is included in Appendix K of this report.
- None of the information reviewed indicated that CCSB approved the posters and resulting visibility prior to their publication.
- Groupe Polygone and Groupaction have not provided information indicating the level of visibility provided (for example number of posters distributed).

10.5.5 Radio Capsules

- The stated purpose of these events was to provide funding for a series of radio message campaigns providing tips on various topics, such as hunting, fishing and the outdoors, the economy, health, environment, agriculture and food, security and housing. Examples of the visibility obtained through this sponsorship initiative are included at Appendix H of this report.

-
- The GOC was the only source of funds for the radio capsules, representing contracts with a total value of \$15.9 million.
 - The radio capsules involved the production and airing of radio messages. These steps are consistent with an advertising campaign.
 - For advertising campaigns, the media placement is usually purchased through the AOR, with documentation supporting the value of the media placements usually sent by the AOR to CCSB or Communication Canada. This was not the case with the radio capsules.
 - The entire SPS amounts were paid to Groupe Polygone. Groupe Polygone did not provide CCSB or Communication Canada with a breakdown of the costs associated with the event, or the actual amounts paid for the radio airtime.
 - The radio messages provided free advertising or visibility for the narrators of the messages and their business vehicles. As an example, *Sentier Chasse-Pêche*, a magazine owned by Mr. L. Lemay, obtained free exposure in some of the radio messages.

10.5.6 Salons

- The stated purpose of these events was to provide funding for hunting, fishing and outdoors shows or salons, and a few agriculture and First Nations-related shows or salons

Salon National du Grand Air de Québec (1999-2000)

- The 2000 edition of the *Salon National du Grand Air* in Québec City was cancelled by Expour.
- The entire sponsorship amount (\$333,043) and related agency commissions (\$49,957) were already paid to

Expour, Groupaction and Média/I.D.A. Vision at the time of cancellation.

- Mr. Guité issued a letter, prior to his retirement, instructing Groupaction and Expour to replace any cancelled events by visibility in other events.
- For four regional salons held in St-Jérôme, Drummondville, Baie-Comeau and Rouyn-Noranda, costs incurred by Expour for the “replacement” visibility was \$5,250. This cost included booths where Groupe Polygone promoted their *Sentier Chasse-Pêche* magazine.

Salon International de la Machinerie Agricole (1999-2000)

- The 2000 edition of the Salon International de la Machinerie Agricole was cancelled due to a tear in the Olympic Stadium’s roof.
- The entire sponsorship amount (\$508,695) and related agency commission (\$76,305) were already paid to Expour, Groupaction and Média/I.D.A. Vision at the time of cancellation.
- Mr. Guité issued, prior to his retirement, a letter instructing Groupaction and Expour to replace any cancelled events by visibility other events.
- No documents were found in the GOC files, or in the documents provided to the COI by Groupe Polygone, regarding replacement visibility having been provided to the GOC.

Salons Chasse et Pêche – Trois-Rivières & Sherbrooke

- Expour received \$1.6 million in SPS funding from 1998-99 to 2002-03 for hunting and fishing salons in Trois-Rivières (\$804,348) and Sherbrooke (\$804,348).
- Unlike salons in Montréal , Québec City, Chicoutimi and Rimouski, Expour was not the promoter of the events in Trois-Rivières and Sherbrooke. Rather, Mr. Gaétan

Mondoux and his company, Exposition C.P., was the promoter of these two salons.

- Expour paid Exposition C.P. \$100,000 from 1999 to 2003 to acquire the sponsorship rights associated with these two salons.
- Based on the itemized descriptions on PluriDesign's invoices, Expour also paid PluriDesign Canada \$1 million in fees related to these events, \$485,475 for Trois-Rivières and \$530,125 for Sherbrooke, respectively.
- Based on the review of Expour's financial records, there does not appear to be any other significant costs associated with these events.

Salon Chasse et Pêche – Régionaux

- Expour received \$525,000 in SPS funding during 2000-01 for regional hunting and fishing salons.
- A further \$250,000 in SPS funding was approved for regional hunting and fishing salons for 2001-02. Expour received \$125,000 and the balance was not paid by the GOC.
- Expour purchased visibility in regional salons. The documents associated with these events indicate that four or five regional salons were to provide visibility for the GOC.
- Unlike salons in Montréal, Québec City, Chicoutimi and Rimouski, Expour was not the promoter of these regional salons.
- The invoices located for the specific regional salons (Rouyn-Noranda, Baie-Comeau and St-Jérôme) indicate that Expour paid the event organizers \$1,000 per salon to obtain the visibility, for a total cost of approximately \$5,000, leaving Expour with \$520,000 of the \$525,000 received from the GOC for 2000-2001. Similar costs were incurred in 2001-2002.

-
- Expour also paid PluriDesign Canada \$90,000 in fees related to this event during 2000-01. This amount is based on the itemized descriptions on PluriDesign's invoices.
 - Based on the review of Expour's financial records, there does not appear to be any other significant costs beyond the \$5,000 paid for the visibility associated with these events.

Rendez-Vous Autochtone

- Rendez-Vous Autochtone is an event within the Salon National du Grand Air de Montréal. Rendez-Vous Autochtone received its own SPS funding in 2000-01 (\$245,000) and in 2001-02 (\$230,000).
- The Salon National du Grand Air de Montréal was already receiving significant SPS funding from the GOC: \$1,063,750 in 2000-01 and \$1,110,960 in 2001-02.
- It should be noted that the requests for the two events were not sent to CCSB at the same time. The request for the Salon National du Grand Air de Montréal was sent prior to the start of a new fiscal year. The requests for Rendez-Vous Autochtone were sent eight to nine months later.
- It is not known if CCSB recognized the fact that Rendez-Vous Autochtone was part of the Salon National du Grand Air de Montréal, or if it did know, why it decided to sponsor the event, or if they received more visibility than they would have received otherwise.

10.5.7 *Grand Prix of Canada*

- Groupaction managed the SPS contract for the Grand Prix of Canada event in 1998.
- The final amount paid by the GOC for this event included \$900,000 in sponsorship and \$114,000 in

production costs, for a total of \$1,014,000 paid to GPF1, the promoter of the event.

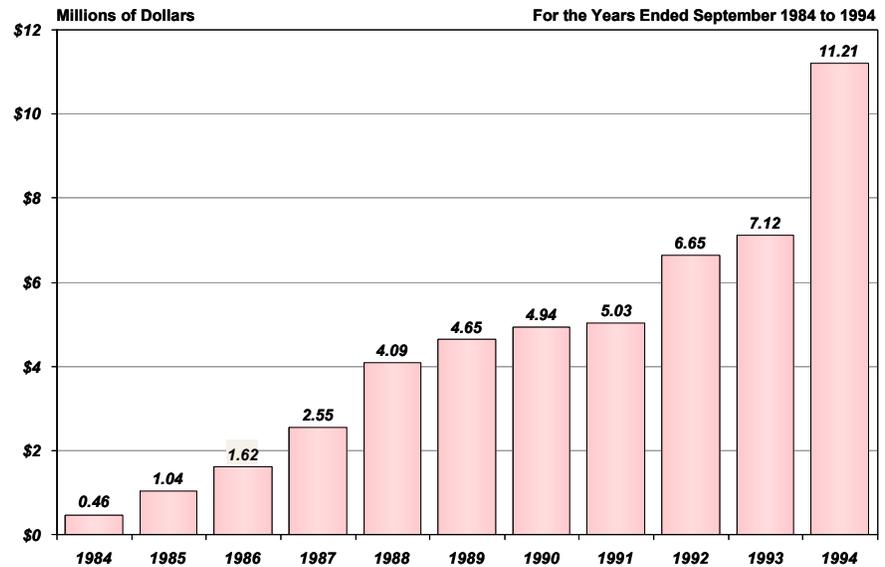
- A document accompanying, but not necessarily part of the contract between GPF1 and Groupaction indicates that “the deal” is actually \$700,000 in sponsorship, \$50,000 in production costs, and \$264,000 in tickets for the 3-day event (230 daily tickets for a total of 690 tickets). 30 of these 3-day tickets were for the “paddock club”, at a cost of \$2,800 each. A further 110 3-day tickets were in the “loges restaurant” category, at a cost of \$1,400 each.
- We have not been able to ascertain who benefited from the use of these tickets. Correspondence between Groupaction and GPF1 indicated that up to 336 of the 690 tickets may have been for use by GOC employees or representatives.

**10.6 Financial Impact
of Advertising
and SPS
Contracts on
Results of
Groupaction**

**10.6.1 *Level of Business Prior to Advertising and SPS
Contracts***

From 1982 to 1994, Groupaction’s clients were from both the private and public sectors, including the Québec provincial government. The level of business grew steadily over the years, as shown in the following Table:

Table 72: Groupaction Marketing - Annual Revenues 1984-1994



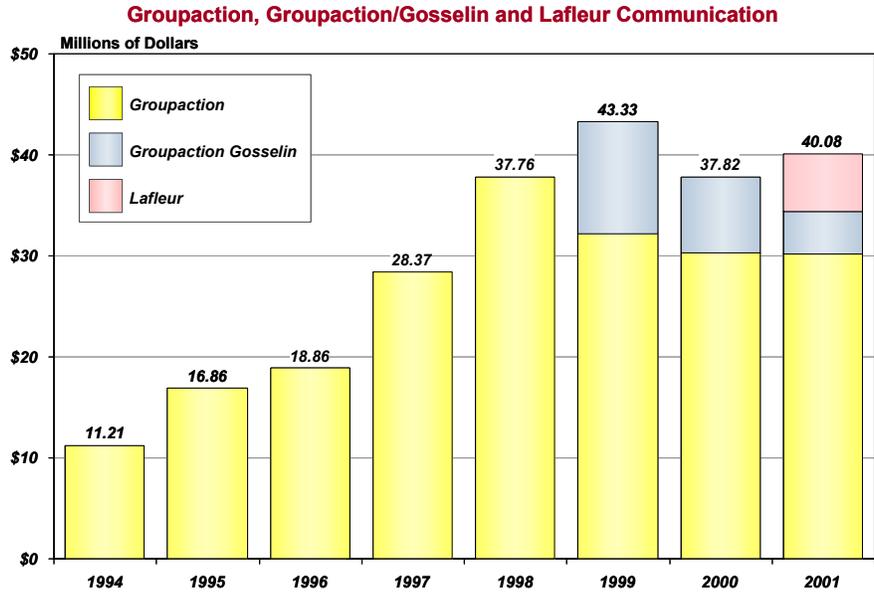
We were not able to establish a summary of revenues by customer for this period as the information was not available. We have not located any information that would lead us to believe that Groupaction received contracts from the GOC during this period.

During this same period the net income of Groupaction grew from \$17,045 in 1984 to \$314,078 in 1994.

10.6.2 Impact on Revenues

Groupaction's revenue increased significantly after it started receiving contracts from the GOC; from \$11.2 million in revenue in 1994, prior to GOC contracts awarded to Groupaction, to well above \$40 million, after the purchase(s) of Gosselin Communication and Lafleur Communication, as shown in the following Table:

Table 73: Groupaction Marketing Annual Revenues



Based on Groupaction's Adtraq accounting system, which does not include Groupaction/Gosselin and Lafleur Communication, Groupaction generated \$51.99 million in revenues from the GOC from 1996 to 2002, representing 28% of Groupaction's revenues recorded in the accounting system for this period.

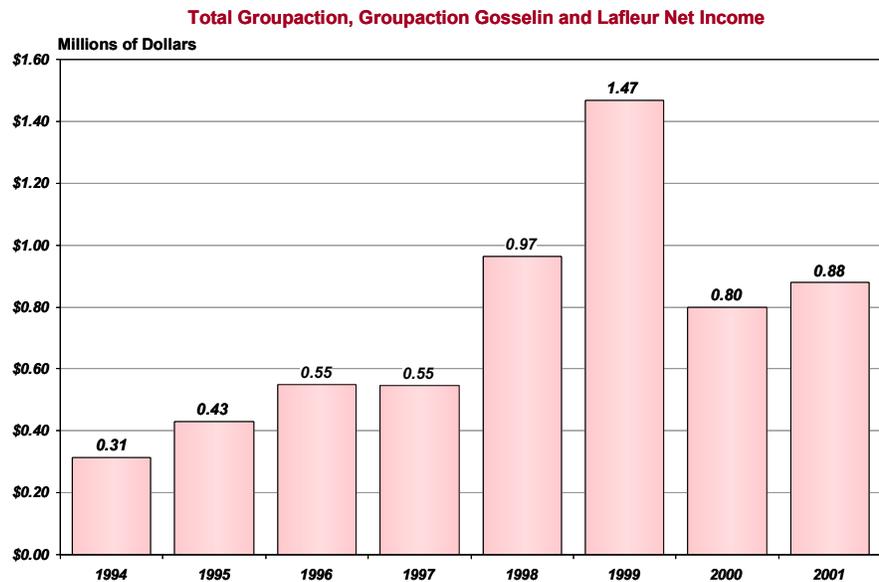
10.6.3 Impact on Net Income

The net income of Groupaction continued to increase from 1994 to 2001, as demonstrated in the following Table:

Table 74: Groupaction Marketing, Groupaction/Gosselin and Lafleur Communication Net Income for the Years Ended 1994 to 2001

Year	Groupaction Marketing	Groupaction/Gosselin	Lafleur Communication	Total
1994	\$314,078	-	-	\$314,078
1995	431,155	-	-	431,155
1996	548,823	-	-	548,823
1997	544,700	-	-	544,700
1998	964,864	-	-	964,864
1999	891,294	577,451	-	1,468,745
2000	887,927	(91,144)	-	796,783
2001	<u>1,208,557</u>	<u>(292,649)</u>	<u>(36,686)</u>	<u>879,222</u>
Total	<u>\$5,791,398</u>	<u>\$193,658</u>	<u>(\$36,686)</u>	<u>\$5,948,370</u>

Table 74a - Net Income of Selected Communication Agencies



Due to the mixture of clients, it is not possible to separate the profits generated from the GOC contracts from the overall results.

10.7 Notable Uses of Funds by Groupaction

10.7.1 Salaries and Dividends

Salaries

Based on their personal tax returns or T4 slips, Mr. J. Brault and Ms Joane Archambault received from Groupaction a total of \$3.9 million in salaries between 1992 and 2001, as detailed in the following Table.

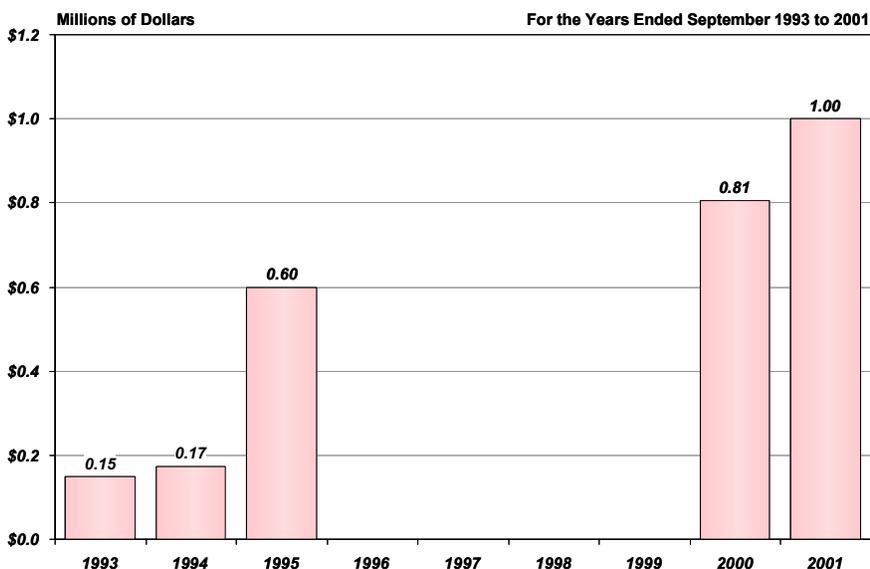
Table 75: Salaries Paid by Groupaction to Mr. Jean Brault and Ms Joane Archambault from 1992 to 2001

<u>Year</u>	<u>Mr. Jean Brault</u>	<u>Ms Joane Archambault</u>	<u>Total</u>
1992	\$156,934	\$33,995	\$190,929
1993	167,428	36,500	203,928
1994	147,869	37,667	185,536
1995	193,993	n/a	193,993
1996	247,596	46,899	294,495
1997	262,705	48,120	310,825
1998	431,255	56,136	487,391
1999	636,690	69,641	706,331
2000	428,748	77,990	506,738
2001	<u>765,765</u>	<u>60,173</u>	<u>825,938</u>
Total	<u>\$3,438,983</u>	<u>\$467,121</u>	<u>\$3,906,104</u>

Dividends

The accumulated profits of Groupaction were also distributed to its shareholders by way of dividends. During the years ended September 30, 1993 and 2001, \$2.7 million was paid in dividends, as follows:

Table 75a – Groupaction Marketing – Dividends Paid



10.7.2 Political Contributions

Contributions to the Liberal Party of Canada – \$170,854

Based on the documents available, Groupaction and related companies paid \$170,854 in political contributions to the Liberal Party of Canada from 1993 to 2002. The contributions were paid by Groupaction (\$136,654), Alléluia (\$29,200) and Impact Splash (\$5,000).

The following Table summarizes the political contributions by year by company and is detailed in Exhibit C-298, pages 2 to 4:

Table 76: Groupaction - Political Contributions to the Liberal Party of Canada For 1993 to 2002

Year	Groupaction	Alléluia Design	Impact Splash	Total
1993	\$455	-	-	\$455
1994	4,399	-	-	4,399
1995	-	-	-	-
1996	8,100	-	-	8,100
1997	59,300	-	-	59,300
1998	16,400	\$5,000	-	21,400
1999	40,400	15,000	\$5,000	60,400
2000	6,400	9,200	-	15,600
2001	1,200	-	-	1,200
2002	-	-	-	-
Total	<u>\$136,654</u>	<u>\$29,200</u>	<u>\$5,000</u>	<u>\$170,854</u>

Other Payments Purportedly Related to the Liberal Party of Canada – \$1.76 million

In addition to the political contributions to the Liberal Party of Canada identified in Table 76 of this report, other amounts were paid in a number of different manners and are purportedly related to political parties or political contributions. Table 77 below summarizes these other payments, purportedly related to political parties or political contributions.

Table 77: Groupaction Marketing – Payments Suggested by Brault to be for the Benefit of the Liberal Party of Canada

	<u>Payee or Type of Payment</u>	<u>Amount</u>
1.	9004-8612 Québec Inc. (Comsar)	\$812,065
2.	PluriDesign Canada	430,370
3.	Investissement Alain Renaud	153,481
4.	John Welch	84,500
5.	Commando Communication	70,000
6.	Groupe Everest	50,000
7.	Le Groupe Gosselin et Associés	42,856
8.	Productions Caméo	39,850
9.	Richard Boudreault via Harel Drouin & Associés	24,975
10.	Gestions Richard B. Boudreault	14,790
11.	Club de Golf de Verchères	14,100
12.	Restaurant La Tarentella	8,282
13.	Georges Farrah	6,000
14.	Au Printemps Gourmet	5,168
15.	Gabriel ("Gaby") Chrétien	4,000
16.	Business organizations fundraisers attended by Ministers	3,150
17.	Cash payments	<u>unknown</u>
	Total	<u>\$1,763,587</u>

Schedule 21 to this report provides more detail on the nature of these transactions.

As noted in Schedule 21 the amount paid to 9004-8612 Québec Inc. and Investissement Alain Renaud were for his lobbying services and to finance his efforts on behalf of the Liberal Party of Canada. Further, as noted in Schedule 21, Mr. J. Brault indicated that he made a number of cash payments or contributions to the Liberal Party of Canada (Québec) through Mr. Alain Renaud, Mr. Benoît Corbeil, Mr. Jacques Corriveau and/or Mr. Giuseppe (Joe) Morselli. We have identified, as noted in Schedule 22, various Groupaction cheques totaling \$406,514, which may have provided Mr. J. Brault with the opportunity to obtain cash amounts.

Contributions to the Parti Québécois – \$21,000

We have identified \$21,000 in payments to employees of Groupaction (seven payments of \$3,000 each). Mr. J. Brault and Mr. Bernard Michaud have indicated, in their testimony to the COI, that these payments were used to fund matching payments of \$3,000 to the Parti Québécois by the employees.

10.7.3 Payments to Mr. Guité and Oro Communication

Groupaction paid \$127,731 to Oro Communication between October 1999 and February 2002 (Exhibit P-375, p.40). According to the supporting documents, these payments were made for the services of Mr. Guité for his work regarding potential acquisitions and acquirers for Groupaction.

In addition, Société Immobilière Alexsim Inc., controlled by Mr. J. Brault, paid \$25,000 to Mr. Guité on April 19, 2001 (Exhibit C-299 p.39).

Mr. J. Brault also paid \$35,000 to Mr. Guité for the purchase of a car.

10.8 Scope Limitations

The following documentation was requested but not available for our review:

1. The complete files for all SPS contracts covering the GOC's 1996-97 to 2001-02 fiscal years; we were provided with the files, however, these files do not appear to be complete. As an example, there was a letter signed by Guité on July 3, 1999 that authorized Groupaction to destroy documents related to the visibility provided by Groupe Polygone and Expour for SPS contracts for the 1997-98 and 1998-99 GOC fiscal years (Exhibit C-296 p.83).
2. Copies of cancelled cheques for all of the Jean Brault companies. We were provided with access to certain cheques, however it appears that the documents were not complete.
3. Financial statement of Groupaction Marketing for the year ended September 30, 2002 and 2003.
4. Financial statements of 3488331 Canada Inc. from 1998 to 2003.
5. Financial statements of 9054-0337 Québec Inc. from 1997 to 2003.
6. Financial statements of Solution – Ventes & Marketing Inc. from 1998 to 2003.

-
7. Financial statements of 3703096 Canada Inc. from 2000 to 2003.
 8. Bank accounts of Jean Brault and Joane Archambault from 1994 to 2003, and accompanying cancelled cheques and deposit books.
 9. Personal income tax return for Joane Archambault for the year ended December 31, 1995.

11.0 DETAILED FINDINGS - GROUPE POLYGONE AND EXPOUR

11.1 Business Background

Expour Inc., Expour 2000 Inc. (jointly referred to as “Expour”) and Groupe Polygone are owned by Mr. L. Lemay.

Expour organizes expositions while Groupe Polygone publishes magazines and other periodicals.

11.2 Level of Business

11.2.1 Revenues Generated by Groupe Polygone and Expour

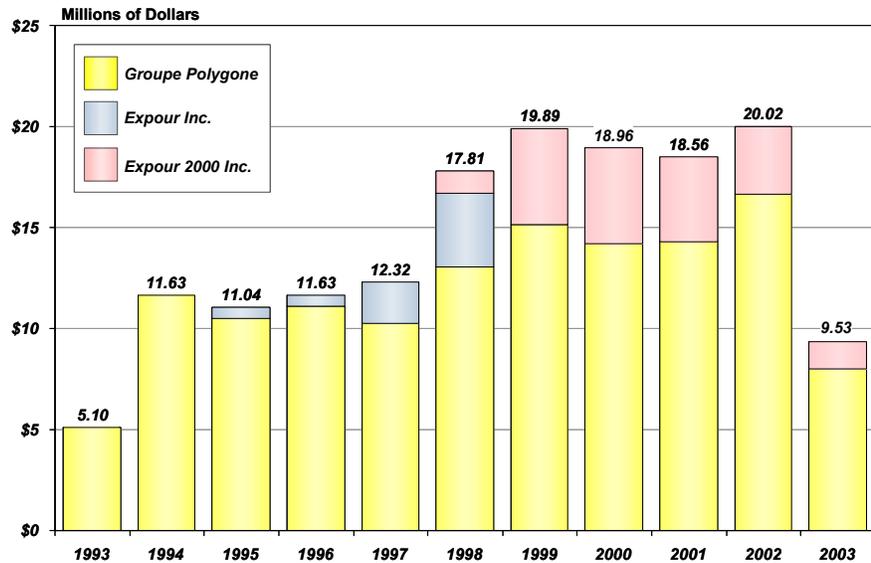
The following table provides a summary of revenues generated by Groupe Polygone and Expour from 1993 to 2003. The receipt of SPS funds began in 1997 for Expour and in 1998 for Groupe Polygone.

Table 78: Groupe Polygone, Expour and Expour 2000 Annual Revenues for the Years Ended 1993 to 2003

<u>Year</u>	<u>Groupe Polygone</u>	<u>Expour Inc.</u>	<u>Expour 2000 Inc.</u>	<u>Total</u>
1993	\$5,096,532	-	-	\$5,096,532
1994	11,632,800	-	-	11,632,800
1995	10,515,875	519,322	-	11,035,197
1996	11,123,887	506,333	-	11,630,220
1997	10,269,335	2,046,748	-	12,316,083
1998	13,043,749	3,658,782	1,107,997	17,810,528
1999	15,146,991	-	4,738,480	19,885,471
2000	14,201,103	-	4,753,832	18,954,935
2001	14,299,036	-	4,218,063	18,517,099
2002	16,664,745	-	3,356,509	20,021,254
2003	<u>8,206,444</u>	<u>-</u>	<u>1,322,990</u>	<u>9,529,434</u>
Total	<u>\$130,200,497</u>	<u>\$6,731,185</u>	<u>\$19,497,871</u>	<u>\$156,429,553</u>

Table 78a – Annual Revenues of Selected Communication Agencies – 1993 to 2003

Groupe Polygone, Expour Inc. and Expour 2000 Inc.



11.3 Events and Amounts Sponsored by GOC

Expour received its first sponsorship from the GOC for the 1997 Salon National du Grand Air de Montréal, in the amount of \$450,000.

During 1996-97 to 2001-02 GOC fiscal years, Groupe Polygone and Expour received \$36.7 million in sponsorship and related production costs from the GOC via communication agencies, as summarized in Table 79 and detailed at Exhibit P-326, page 4:

**Table 79: Groupe Polygone, Expour and Expour 2000
GOC SPS Funds Received for the 1996-97 to 2001-02 GOC Fiscal Years**

Year	Groupe Polygone	Expour & Expour 2000	Production Costs	Total
1996-97	-	\$450,000	-	\$450,000
1997-98	\$3,167,580	1,236,000	-	4,403,580
1998-99	5,498,965	2,546,550	-	8,045,515
1999-00	4,858,022	2,954,780	807,500	8,620,302
2000-01	7,896,000	2,362,500	600,000	10,858,500
2001-02	<u>2,905,500</u>	<u>1,400,000</u>	-	<u>4,305,500</u>
Total	<u>\$24,326,067</u>	<u>\$10,949,830</u>	<u>\$1,407,500</u>	<u>\$36,683,397</u>

This Table does not include \$2.5 million in SPS that was approved but not paid to Groupe Polygone and Expour by the GOC for various events in 2001-2002.

A chart summarizing the flow of funds associated with the Expour and Groupe Polygone sponsorship events is presented as Schedule 23 of this report.

In addition, Groupe Polygone received \$1.9 million from Armada related to an advertising contract for the CIO. Inclusive of this amount, Groupe Polygone and Expour received a total of \$38.6 million from GOC, SPS and advertising contracts.

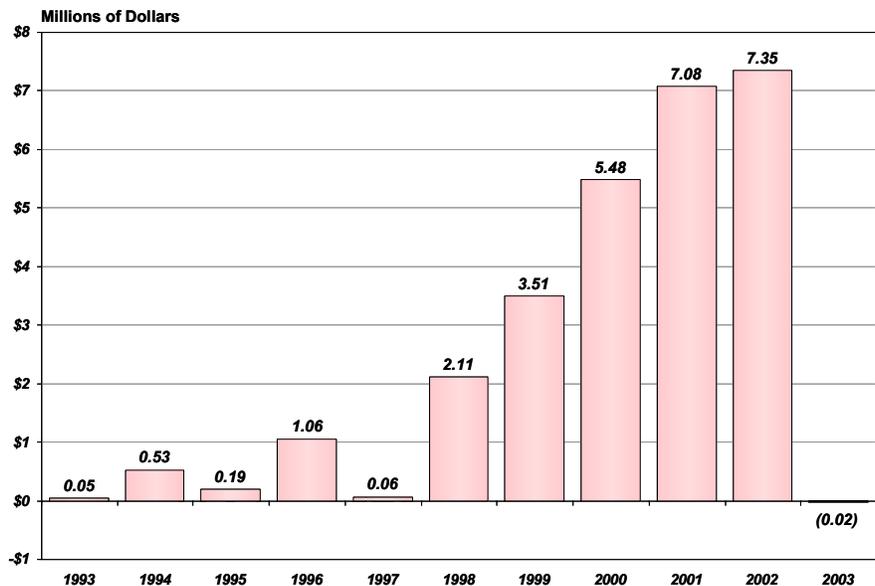
11.4 Financial Impact of GOC Sponsorship on Financial Results

The following chart provides a summary of the earnings before income taxes generated by Groupe Polygone and Expour from 1993 to 2003.

Table 80: Groupe Polygone, Expour and Expour 2000 Earnings Before Income Taxes for the Years Ended 1993 to 2003

<u>Year</u>	<u>Groupe Polygone</u>	<u>Expour Inc.</u>	<u>Expour 2000 Inc.</u>	<u>Total</u>
1993	\$46,033	-	-	\$46,033
1994	531,154	-	-	531,154
1995	189,135	3,664	-	192,799
1996	981,941	77,417	-	1,059,358
1997	150,603	(91,548)	-	59,055
1998	1,780,945	57,165	273,213	2,111,323
1999	2,852,456	-	652,421	3,504,877
2000	4,796,593	-	683,331	5,479,924
2001	6,422,719	-	659,480	7,082,199
2002	7,316,508	-	31,847	7,348,355
2003	<u>(42,772)</u>	<u>-</u>	<u>22,034</u>	<u>(20,738)</u>
Total	<u>\$25,025,315</u>	<u>\$46,698</u>	<u>\$2,322,326</u>	<u>\$27,394,339</u>

**Table 80a – Earnings Before Income Taxes –
Groupe Polygone, Expour and Expour 2000**



11.5 Notable Uses of Funds

11.5.1 Dividends

From 1998 to 2000 Groupe Polygone paid \$12.6 million in dividends to its shareholder, a company controlled by Mr. L. Lemay (\$5,240,000 in 1998, \$5,150,000 in 1999 and \$2,250,000 in 2000). These funds were co-mingled with other existing amounts in Mr. L. Lemay’s primary investment company. Mr. L. Lemay’s investments were primarily in marketable securities and in real estate.

11.5.2 Payments to PluriDesign Canada

Groupe Polygone and Expour have paid \$5.8 million to PluriDesign Canada, a company owned by Mr. J. Corriveau, as detailed in Exhibits P-322(A) and P-322(B).

Originally Mr. J. Corriveau was retained by Mr. L. Lemay to help with the concept and design of the first Salon National du Grand Air de Montréal. For this event, Mr. J. Corriveau was paid \$108,000 in professional fees for his services, based on the invoices produced as Exhibit P-338.

Later invoices issued by PluriDesign provide descriptions for specific work based on professional services contracts prepared by Mr. J. Corriveau. Also, the invoices are mostly associated with the salon events, an area where Mr. J. Corriveau had originally performed some work for Mr. L. Lemay. No invoices were issued by Mr. J. Corriveau in relation to the radio capsules.

The invoices issued by PluriDesign indicate Mr. J. Corriveau invoiced Expour fees totaling \$136,500 for the cancelled Salon in Québec City and \$241,000 for the cancelled Salon International de la Machinerie Agricole. In addition, PluriDesign also invoiced Expour \$1,015,600 for salons held in Sherbrooke and Trois-Rivières. Expour was not the promoter of these events and purchased visibility at those salons for \$100,000.

The \$5.8 million paid by Mr. L. Lemay's companies to PluriDesign Canada represents 15.9% of the \$36.7 million in sponsorship funds received by Mr. L. Lemay's companies from the GOC.

11.5.3 *Payments to Jean Brault Companies*

Mr. L. Lemay's companies have paid \$2.1 million to Mr. J. Brault's companies, as summarized in Schedule 20 and on the flow of funds chart presented in Section 5 of this report.

11.5.4 *Political Contributions*

Mr. L. Lemay's companies have contributed \$23,361 to the Liberal Party of Canada, as detailed at Exhibit P-328(B) pages 560 to 568.

11.6 Scope Limitations

The following documentation was requested but not available for our review:.

1. Groupe Polygone bank accounts, cancelled cheques and deposit books from April 1997 to March 2000.
2. Groupe Polygone general ledger for the 1998 to 2000 year-ends.

-
3. Groupe Polygone supplier invoices for the 1998 to 2000 year-ends.
 4. Expour Inc. bank accounts, cancelled cheques and deposit books from April 1996 to March 1998.
 5. Expour Inc. general ledger for the 1997 and 1998 year-ends.
 6. Expour Inc. supplier invoices for the 1997 and 1998 year-ends.
 7. Expour 2000 Inc. supplier invoices from April 1998 to January 1999.

Luc Lemay has indicated the above-noted documentation no longer exist.

12.0 DETAILED FINDINGS - PLURIDESIGN CANADA INC.

12.1 Business Background

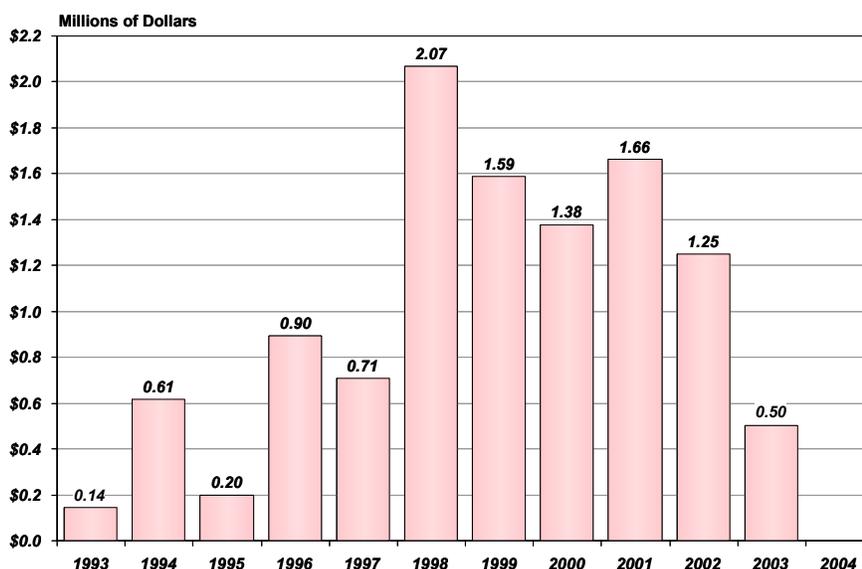
PluriDesign Canada Inc. ("PluriDesign") is owned by Mr. J. Corriveau through Jacques Corriveau Designer Inc. (an investment company) and was in the business of graphic design and related services.

12.2 Level of Business

12.2.1 Annual Revenues

The following Table provides a historical summary of revenues generated by PluriDesign.

Table 81 – Annual Revenues – PluriDesign Canada Inc.



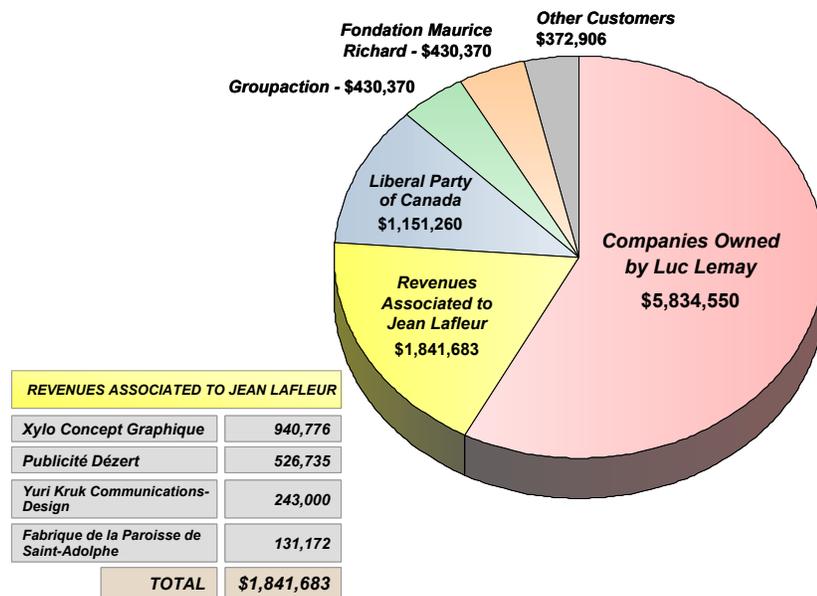
The revenue increase in 1998 is partly due to the work by Mr. J. Corriveau and PluriDesign on the federal general elections of 1997. For the year ended February 28, 1998, PluriDesign generated \$869,175 in revenues from the Liberal Party of Canada (Exhibit P-332 p. 211). Based on a review of PluriDesign's records, no payments were received for the 2000 general election from the Liberal Party of Canada or its electoral

candidates for any work that may have been undertaken by Mr. J. Corriveau.

12.2.2 Revenues by Customers

Based on PluriDesign’s customer invoices and invoice registers for the years ended February 1996 to 2004, its main customers, as detailed in P-332 page 211, were as follows:

Table 81a – PluriDesign Canada Inc. – Revenues By Customers – 1996 to 2004



The revenues associated with Mr. J. Lafleur relate mostly to sub-contracts given to PluriDesign by Xylo Concept Graphique (owned by Mr. Pierre Davidson), Publicité Désert (owned by Mr. Éric Lafleur) and Yuri Kruk Communications-Design (owned by Mr. Yuri Kruk). Each of these companies were direct sub-contractors of Lafleur Communication. The revenues received from La Fabrique de la Paroisse de Saint-Adolphe are related to the renovation of a church financed personally by Mr. J. Lafleur.

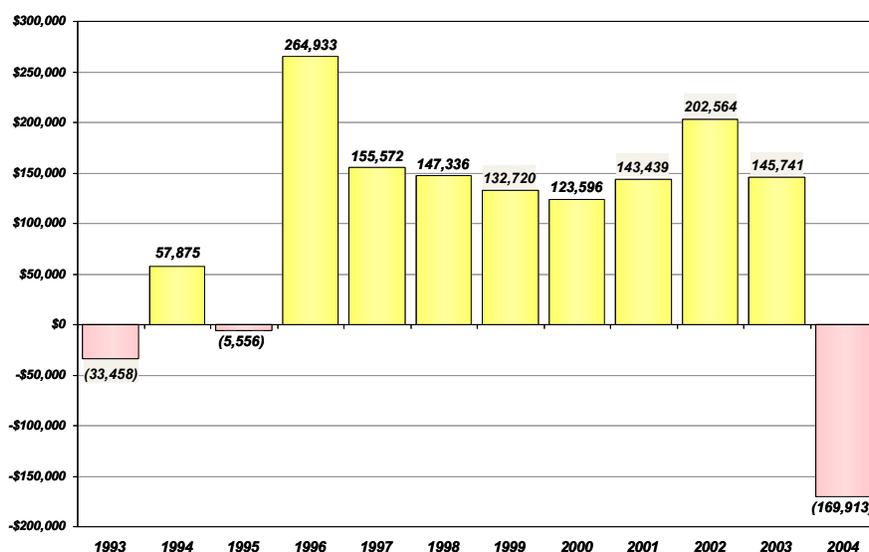
The available documentation does not indicate what services, if any, were provided by PluriDesign to Groupaction for the \$430,370 it received from Groupaction.

**12.3 Financial Impact
of GOC
Sponsorship on
Financial Results**

12.3.1 *PluriDesign Canada*

The following table provides a historical summary of the net earnings generated by PluriDesign, totaling \$1.1 million. In addition to these net earnings, Mr. J. Corriveau received \$4.4 million in salaries and bonuses from 1995 to 2003, as detailed in Section 12.4.1 of this report.

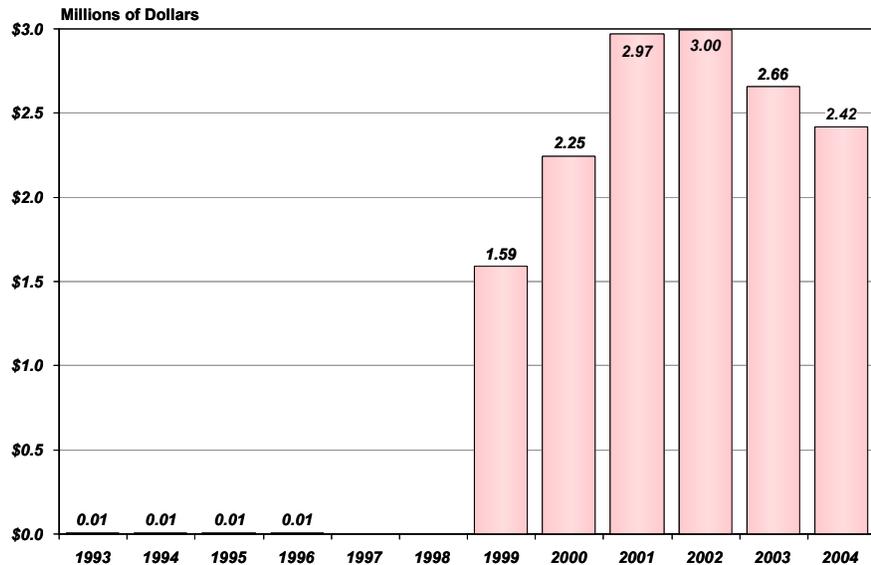
Table 82 – PluriDesign Canada Inc. – Net Earnings From 1993 to 2004



12.3.2 *Jacques Corriveau Designer Inc.*

The following table provides a historical summary of the total assets of Jacques Corriveau Designer Inc. From 1993 to 1998 the company was inactive with virtually no assets. The increase in assets starting in 1999 is a result of the receipt of dividends from PluriDesign (\$1,085,000), other advances from PluriDesign made from available cash flow, and the re-investment of bonuses paid by PluriDesign to Mr. J. Corriveau.

Table 83 – Total Assets – Jacques Corriveau Designer Inc.



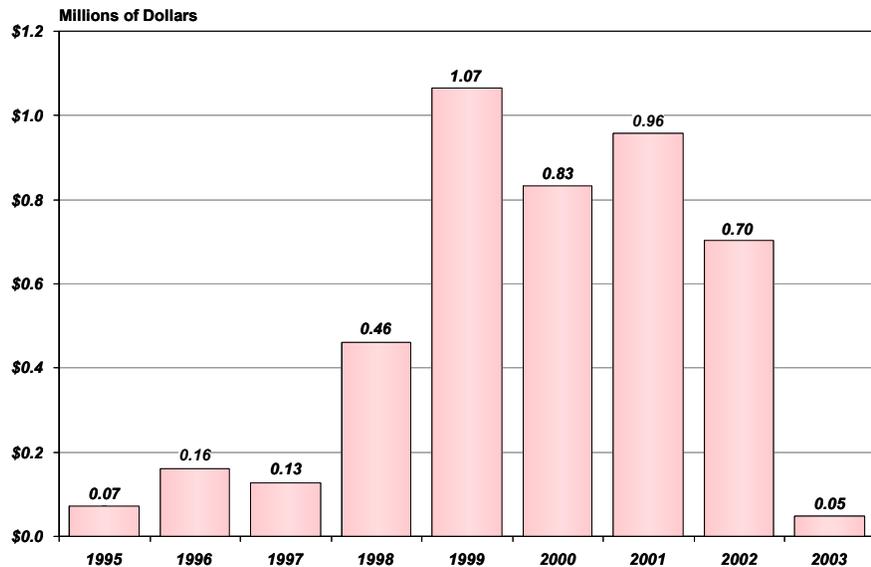
As at February 28, 2004, the assets of Jacques Corriveau Designer Inc. were made up of cash (\$1,051,703), marketable securities (\$1,364,871) and other assets (\$4,635).

12.4 Notable Uses of Funds by Pluridesign Canada

12.4.1 Salaries and Bonuses to Mr. Jacques Corriveau

According to Mr. J. Corriveau's personal income tax returns, he received \$4.4 million in salaries and bonuses from PluriDesign from 1995 to 2003, as summarized in Table 84 and detailed at Exhibit P-332, page 218:

Table 84 – Employment Income From PluriDesign – Jacques Corriveau



Based on the information reviewed, Mr. J. Corriveau paid himself a yearly salary of approximately \$60,000 and received the balance of his remuneration by way of bonuses. \$1.8 million of the funds, representing approximately net after tax \$2.0 million arising from bonuses, were re-invested by Mr. J. Corriveau in Jacques Corriveau Designer Inc., his investment company. The balance of the net after tax bonuses of approximately \$200,000 was redeposited in PluriDesign and later transferred to Jacques Corriveau Designer Inc.

12.4.2 Dividends

Of the \$1,164,849 in net earnings generated by PluriDesign (i.e. profits left after payment of salaries and bonus to Mr. J. Corriveau), \$1,085,000 was paid to Jacques Corriveau Designer Inc. by way of dividends (\$600,000 in 1999, \$160,000 in 2000, \$125,000 in 2001 and \$200,000 in 2002).

12.4.3 Political Contributions

Mr. J. Corriveau, his wife and the companies he owns have contributed \$53,189 to the Liberal Party of Canada, as detailed at Exhibit P-332 pages 220 to 256.

12.4.4 Production Costs

PluriDesign incurred \$2.8 million in production costs for the years ended February 28, 1993 to 2004, as detailed in Exhibit P-332, page 94.

Based on the analysis of production costs for the years ended February 28, 1998 to 2003 presented at Exhibit P-332 page 213, PluriDesign's most important sub-contractors, by value, are as follows:

Table 85: PluriDesign Canada Inc. Significant Subcontracts, by Value, 1998 to 2004

<u>Sub-Contractor Name</u>	<u>Amount</u>
Quad	\$303,233
Mirabau	149,358
Super Impression	140,238
Imprimerie Production	85,856
Interpôles	74,300
Grafix Studio	71,499
Le Groupe Gosselin et Associés	55,200
Impression Arts Ltd	53,203
Matériaux Pont Masson	52,233
Sérigraphie 2000	51,594
MP Photo Reproduction	49,997

12.5 Scope Limitations

The following documentation was requested but not available for our review:

1. Bank accounts of Jacques Corriveau from 1994 to August 1999.
2. Cancelled cheques for the bank accounts of Jacques Corriveau from 1994 to 2003.
3. Supplier invoices of PluriDesign Canada from 1994 to 2003.
4. Customer invoices of PluriDesign Canada from 1994 to 2003. The customer invoices provided to us were not complete. In particular, we note a number of invoices issued to Publicité Désert and Xylo Concept Graphique were missing.

**13.0 DETAILED
FINDINGS -
GROUPE EVEREST**

**13.1 Business
Background**

13.1.1 *Groupe Everest C.M.-P.C.R. Inc.*

Groupe Everest C.M.-P.C.R. Inc. (“Groupe Everest”) was established on March 26, 1985. Groupe Everest, was a holding company for the various entities that operated under the Groupe Everest umbrella of companies (“Groupe Everest Companies”) which provided communication services to the GOC prior to and during the SPS period as well as other private and public clients. Refer to Exhibit P-340(B) for corporate structure and ownership.

Groupe Everest’s various investments in subsidiaries, satellite companies and Interpublic GRP Inc. for the period 1993 to 2003, are detailed in Schedule 24 attached to this report.

13.1.2 *Everest Group of Companies*

The Groupe Everest Companies’ operating structure is described in detail in exhibits P-340(A) and summarized in Table 86. The Groupe Everest Companies had approximately 200 employees during the SPS period.

Table 86: Summary of Operations of the Groupe Everest Companies

Company	Date Established	Principal Operations	Notes
Everest Commandites (G.E.C.M.) Inc.	February 1, 1985	Sponsorship/Promotions	Formerly Everest Promotion (G.E.C.M.) Inc.
Everest Estrie Publicité (G.E.C.M.) Inc.	November 1, 1976	Communication and Marketing Services for the Eastern Township Area	
Everest Relations Publiques (G.E.C.M.) Inc.	June 15, 1987	Public Relations	
Lambert Multimedia Inc.	October 31, 1995	Audio visual production services	
Sensas (G.E.C.M.) Inc.	August 28, 1998	Production services and sale of promotional items	
Everest Versant Ouest Inc.	August 27, 1996	Communication and Marketing Services in Ottawa	Formerly 3289796 Canada Inc.
Everest Publicité (G.E.C.M.) Inc.	February 13, 1980	Communication services	Merged with Everest Publicité Promotions (G.E.C.M.) Inc.)
Everest Publicité Promotions (G.E.C.M.) Inc.	August 10, 1984	Advertising and Promotion services	Formerly 176698 Canada Inc. also known as Ascension Creation. Merged with Everest Publicité (G.E.C.M.) Inc. in 1999
Média/I.D.A. Vision Inc.	August 1, 1997	Agency of Record effective April 1, 1998	Formerly 3397823 Canada Inc.
Mediavision W.W.P.	September 21, 1998	Management, planning, negotiations and purchase of advertising, mainly for Média/I.D.A. Vision	

The complex operating structure and incomplete financial records made it difficult to determine who received funds from the SPS contracts, which companies were party to the contracts with PWGSC and the ultimate cost to the Groupe Everest Companies for executing the contracts. A review of the available financial information of the companies shows that the Groupe Everest Companies were involved in many intercompany transactions.

On February 14, 2000, Draft Worldwide Canada Inc, ("Draft") purchased all the issued and outstanding shares of five

subsidiaries of Groupe Everest:^{1,2} Everest Commandites (G.E.C.M.) Inc. (“Everest Commandites”), Lambert Multimedia Inc., Everest Relations Publiques (G.E.C.M.) Inc. (“Everest Relations Publiques”), Sensas (G.E.C.M.) Inc. (“Sensas”), and Everest Estrie Publicité (G.E.C.M.) Inc. (“Everest Estrie”). Draft is part of the Interpublic Group of Companies (“IPG”), a US public company.

Subsequent to the transaction with Draft, Groupe Everest continued to obtain contracts from PWGSC related to the SPS. The subsidiaries owned by Draft together with the companies that remained under the Groupe Everest umbrella continued to service these contracts in the same manner as prior to the transaction.

On December 27, 2002, Draft purchased the remaining operating subsidiaries of Groupe Everest.

The purchase price paid by Draft to various Sellers³ was paid in cash and shares as follows:

Table 87: Consideration Paid by Draft
(000s)

	<u>Cash</u>	<u>Value of Shares</u>	<u>Total</u>
December 15, 2000	7,000	-	7,000
February 27, 2001	16,045	1,783	17,828
June 13, 2002	<u>24,750</u>	<u>2,750</u>	<u>27,500</u>
Total	<u>\$47,795</u>	<u>\$4,533</u>	<u>\$52,323</u>

Details of the transaction are in Exhibit P-362.

¹ Refer to Exhibit P-340(A) Annexe III for a summary of the transactions and P-362 for the various related Agreements between the purchaser and sellers.

² Just prior to the transaction, these subsidiaries had been transferred into 3698866 Canada Inc., a wholly owned subsidiary of Groupe Everest.

³ The Sellers are defined as Groupe Everest C.M.-P.C.R. Inc., Ms Diane Deslauriers, Mr. Charles Choquette and 9086-8225 Québec Inc. We were not provided the details of how the cash was distributed between the Sellers.

13.1.3 *Caliméro Partenariat Inc.*

In addition to the Groupe Everest Companies, Ms Diane Deslauriers, Mr. Claude Boulay's wife, owned Caliméro Partenariat Inc. ("Caliméro"). This company sought out and managed sponsorship events for Everest Commandites for both private and public clients. This company was not part of the Groupe Everest Companies.

On February 14, 2000, Draft purchased all the issued and outstanding shares of Caliméro.

Ms D. Deslauriers was the sole employee of Caliméro and she worked with employees of Everest Commandites to manage sponsorship events, as necessary.

13.1.4 *Groupe Everest's First Dealings with the GOC*

Prior to the Liberal Party of Canada taking office in 1993, Groupe Everest generated advertising revenues from Canada Communication Group of \$1.1 million from the GOC fiscal years 1990-91 to 1992-93.

13.2 GOC Selection Processes

13.2.1 *Advertising Selection Process*

Table 88 identifies the agency selection competitions where Groupe Everest was the winning agency. A full listing of all known selection competition has been compiled and produced as Exhibits P-416.

Table 88: Advertising Agency Competitions

<u>Date of Final Report</u>	<u>Department</u>	<u>Winning Agency or Consortium</u>
April 25, 1994	Bank of Canada – Savings Bonds	Consortium of Everest and Ginko
February 8, 1995	Heritage Canada	Groupe Everest; BCP Canada; Compass Communications; Palmer Jarvis Communications; Vickers and Benson
August 8, 1995	Finance – Canada Savings Bonds	Consortium of Vickers & Benson and Groupe Everest

Date of Final Report	Department	Winning Agency or Consortium
September 1, 2000	Canada Information Office	Allard and Johnson Communications Inc.; Armada; Groupe Everest; Ensemble Consortium (made up of Groupaction, Vickers and Benson, Focus, formerly known as Palmer Jarvis, Compass Communications and Coffin)
February 6, 2001	Heritage Canada and Parks Canada	Groupe Everest and a consortium of Publicite Martin and Scott Thornley
May 11, 2001	PWGSC	Groupe Everest; Gosselin; Laffleur; Groupaction, TNC Multicom; Compass; Armada; Bristol; Coffin

13.2.2 Heritage Canada 1995

In January 1995, Groupe Everest entered the advertising competition for Heritage Canada. The agency search questionnaire prepared by Groupe Everest, dated January 12, 1995,¹ noted that the total value of Groupe Everest's billing for 1993 and 1994 was \$32.0 and \$33.5 million respectively. However, Groupe Everest's consolidated financial statements report consolidated revenues of only \$7.6 million and \$6.4 million respectively.

13.2.3 SPS Selection Process

Subsequent to the advertising competition for Heritage Canada, the agencies that were selected were added to the qualified suppliers list for communication and advertising contracts on behalf of PWGSC/APORS by Mr. J.C. Guité (refer to Exhibit P-19, Tab 20). Groupe Everest was one of the qualified suppliers on this list.

13.2.4 AOR: Média/I.D.A. Vision

On December 12, 1997, Groupe Everest, Paul Martel Inc. and Médiavision, an entity representing 3428265 Canada Inc. and I.D.A. Vision (3289796 Canada Inc.) made a presentation to the GOC in response to a request for tender to become the AOR for

¹ Addendum to Exhibit P-19.

media purchases. On March 31, 1998, the GOC entered into a contract with Média/I.D.A. Vision (3397823 Canada Inc.), and Groupe Everest as guarantor, to provide AOR services to the GOC for advertising and sponsorship contracts. The term of the contract was from April 1, 1998 to March 31, 2003.

**13.3 Contracts with
GOC**

13.3.1 SPS Contracts

Between 1994-95 and 2002-03 GOC fiscal years, the Groupe Everest Companies managed SPS contracts with a total value of \$67.7 million consisting of \$42.6 million in contracts with Groupe Everest and related companies, including \$25.6 million related to contracts for Attractions Canada and \$25.1 million of directions with Genesis Media or Média/I.D.A. Vision, as summarized in Table 89:

**Table 89: SPS Contracts Managed by Groupe Everest for GOC
Fiscal Years 1994/95 to 2002/03**

Fiscal Year	Contracts with Groupe Everest and Related Companies	Direction with Genesis Media or Média/I.D.A. Vision	Total
1994/1995	\$ 348,753	\$ 0	\$ 348,753
1995/1996	1,120,890	1,339,200	2,460,090
1996/1997	7,076,343	553,318	7,629,661
1997/1998	12,332,472	367,645	12,700,117
1998/1999	8,344,192	4,913,309	13,257,501
1999/2000	5,204,927	4,209,000	9,413,927
2000/2001	4,410,183	5,640,750	10,050,933
2001/2002	3,724,308	6,034,625	9,758,933
2002/2003	<u>35,851</u>	<u>2,012,500</u>	<u>2,048,351</u>
Total	<u>\$42,597,919</u>	<u>\$25,070,347</u>	<u>\$67,668,266</u>

For a detailed listing of the contracts awarded to the Groupe Everest Companies, refer to Exhibit P-346 pages 4 to 22.

Attractions Canada

Attractions Canada was a partnership program between the GOC, private enterprises and the media¹. Its purpose was to inform Canadians about Canadian attractions including historic sites, natural parks, museums, and similar attractions through the use of advertisements and promotions. Groupe Everest considered this an advertising program and the work was to be executed and invoiced primarily through Everest Publicité Promotions. Attractions Canada was a concept developed by Groupe Everest for the CIO and their proposal was accepted by the GOC.

Attractions Canada started in GOC fiscal year 1996-97. In total, there were thirteen contracts totaling \$25.6 million related to the program from the GOC fiscal years 1996-97 to 2001-02. In addition, in its final year, fiscal year 2002-03, an advertising contract was issued for \$3.5 million which was later revised

¹ www.attractionscanada.com – Exhibit P-90C, page 99.

down to \$2.25 million prior to being cancelled. The total amount of contracts awarded in respect to Attractions Canada was \$27.9 million.

Over the period 1996-97 to 2002-03, the contracts generally did not specify the allocation of the funds between media placement, sponsorship and production costs. The actual terms of the various contracts noted that \$25.5 million was for production costs, and \$2.263 million was to be spent on media placement, \$56,718 was for sponsorship.

We have analyzed invoices for the years 1996-97 to 2000-01, in respect of contracts totaling \$22.1 million. Our analysis indicates that the amount invoiced in connection thereto is \$21.8 million which was invoiced by Groupe Everest companies as follows:

**Table 90: Attractions Canada – Summary of Invoices
(\$ millions)**

	<u>Total</u>
Production Costs	12.3
Media Placement	8.1
Agency Commissions	<u>1.4</u>
Total	<u>\$21.8</u>

Refer to Exhibit P-347 pages 14 to 19 for details by contract. Of the \$12.3 million in production costs, \$6.2 was sub-contracted to third party suppliers and \$6.1 million was retained by the Groupe Everest Companies for professional fees, production costs and commissions as summarized below:

**Table 91: Attractions Canada – Breakdown of Production Costs¹
(\$000's)**

<u>Internal Costs¹</u>

¹ Source: Groupe Everest Companies' and supplier invoices where available.

Description	Professional Fees	Agency Commission	Production Costs	Total Internal Costs	Total External Costs	Total Costs
Media related production	\$383.5	\$334.5	\$554.9	\$1,273.0	\$1,413.9	\$2,686.8
Fixed Fee – “Structure Permanente”	1,150.0	-	-	1,150.0	-	1,150.0
Galas	303.2	36.7	95.2	435.1	318.1	753.3
Website	0.4	62.3	258.8	321.5	137.3	458.8
Serdy Video – “Le Gout de Chez Nous”	60.2	141.2	-	201.4	800.0	1,001.4
Millenium Events	197.4	-	-	197.4	-	197.4
Contests	105.5	38.0	2.1	145.6	360.9	506.5
Promotional items	0.2	31.8	18.2	50.2	162.2	212.4
Logo	44.2	0.2	1.2	45.5	-	45.5
Other invoices	<u>1,170.8</u>	<u>218.4</u>	<u>950.7</u>	<u>2,339.9</u>	<u>2,979.1</u>	<u>5,319.0</u>
Total	<u>\$3,415.3</u>	<u>\$863.2</u>	<u>\$1,881.1</u>	<u>\$6,159.6</u>	<u>\$6,171.5</u>	<u>\$12,331.2</u>

13.3.2 Advertising Contracts

From 1995 to 2003, Groupe Everest acted as the communication agency for advertising contracts for various government departments totaling \$40.45 million, providing media planning and production services. For a complete list of the advertising contracts refer to Schedule 10.

In summary, the \$40.45 million was allocated in the contracts as follows:

**Table 92: Advertising Contract Breakdown
(\$ millions)**

	Total
Media Placement	15.11
Production	<u>25.34</u>
Total	<u>\$40.45²</u>

13.4 Management of Contracts

13.4.1 Special Programs and Sponsorship

Almost all of the SPS contracts were contracted by PWGSC with

¹ Costs billed by or subcontracted to one of the Groupe Everest Companies and there was no third party subcontractor invoice noted.

² The total and allocation on Exhibit P-346 are slightly different. The data presented in Table 92 is based on more recent information.

“Groupe Everest”. The contracts were executed by companies operating within the Groupe Everest umbrella of companies mainly Everest Commandites, Everest Publicité and Everest Publicité Promotions.

The Groupe Everest Companies invoiced PWGSC or Média/I.D.A. Vision on Groupe Everest letterhead with a notation at the bottom of the invoice with instructions as to which Groupe Everest company should be paid. The invoice and corresponding revenue would then be recorded in the Groupe Everest company to which payment was to be directed. In addition to the invoices issued by the Groupe Everest Companies, we noted six invoices totaling \$3.8 million before taxes, that were billed directly by Groupe Everest Inc. (i.e., Groupe Everest C.M.-P.C.R. Inc.) to PWGSC related to various Attractions Canada contracts. However, we note that these invoices were not recorded as revenues by Groupe Everest but rather by the subsidiary to which the work was subcontracted. These invoices are summarized in Schedule 25.

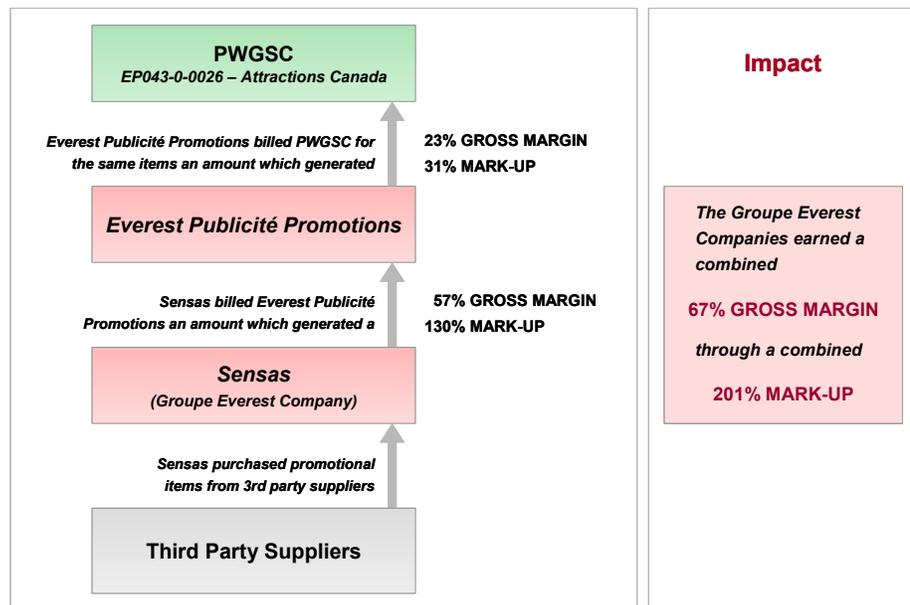
After certain subsidiaries of Groupe Everest were sold to Draft in February 2000, there was no change in the execution of the contracts; the contracts were still issued to “Groupe Everest” and continued to be executed by the subsidiaries now owned by Draft, including Everest Commandites and the subsidiaries still owned by Groupe Everest. We note that Draft was not an agency selected by PWGSC.

Inter-company Billings

In order to execute a sponsorship and production contract, Groupe Everest drew upon the expertise and services of its various companies to fulfill its contract requirements. Services provided to a related company were invoiced either at cost or with a mark-up. We noted several instances where the GOC was ultimately billed for amounts that generated mark-ups within each of Groupe Everest’s related companies that had provided services, in addition to the 17.65% agency commission.

For instance, under contract EP043-0-0026 Everest Publicité Promotions issued invoices to PWGSC for promotional items purchased for Attractions Canada which were purchased by Sensas, a related company. Table 93 summarizes the transaction. Refer to Schedule 26 for a detailed analysis of this contract.

Table 93: Groupe Everest – Intercompany Billings and Mark-ups (EP043-0-0026)



Due to the complex nature of the Groupe Everest Companies' accounting systems and the lack of supporting documentation, we were unable to review and quantify all the instances where there were mark-ups charged to the GOC on inter-company billings.

Other Remuneration from Sponsors

We reviewed eight sponsorship events where the Groupe Everest Companies received "finder's fees" from the sponsoree in addition to the agency fee received from PWGSC. We also noted one instance where the sponsoree, Riopelle, paid a finder's fee directly to Caliméro. In total, the Groupe Everest Companies and Caliméro received \$1.0 million in finder's fees and agency commissions relating to the eight contracts. Of this amount, the Groupe Everest Companies and Caliméro received

finder's fees of \$595,250 or 16.6% of the sponsorship amount. Table 94 lists those eight contracts and related fees and commissions.

Table 94: Summary Fees Paid to Everest and Caliméro

(\$000's)

Event	Contract	PWGSC Sponsorship Amount	Communication Agency Commissions	Finder's Fee	AOR Commission	Total Fees Paid to Everest & Caliméro
Jeux du Québec	EN771-7-0016	220.0	26.4	37.0	-	63.40
Jeux du Québec	EP043-01-0115	150.0	18.0	30.0	4.50	52.50
Parc des îles	EN771-7-0016	500.0	60.0	100.0	-	160.00
Parc des îles	EN771-8-0010	625.0	75.0	93.7	18.75	187.50
Parc des îles	EP043-9-0047	500.0	60.0	75.0	15.00	150.00
Riopelle	EN771-8-0010	75.0	9.0	6.0	2.25	17.25
Salon National du Grand Air	EN771-6-0182	555.0	45.0	111.0	-	156.00
Salon National du Grand Air	EN771-7-0119	<u>950.0</u>	<u>114.0</u>	<u>142.5</u>	<u>-</u>	<u>256.50</u>
Total		<u>\$3,575.0</u>	<u>\$407.4</u>	<u>\$595.2</u>	<u>\$40.50</u>	<u>\$1,043.50</u>

Refer to Exhibits P-324, P-354, P-355 and P-357 for event details.

Caliméro was remunerated by the Groupe Everest Companies by way of commissions. Caliméro invoiced Everest Commandites 25% of the commission received by this company for finding the event. In addition, if Ms D. Deslauriers was involved in managing the event, Caliméro would invoice Groupe Everest another 25% of the agency commission from PWGSC.

Time Charges for Ms D. Deslauriers

During our review of the Groupe Everest Companies' production invoices to PWGSC from the GOC fiscal years 1996-97 to 1999-2000, we noted that on certain invoices the Groupe Everest Companies charged professional fees for Ms D. Deslauriers. We note, however that Ms D. Deslauriers was not an employee of any of the Groupe Everest Companies over this period. In our production analysis, the contracts for which we noted these time charges are as follows:

Table 95: Ms D. Deslauriers Time Charges

Contract	Event	Total Hours
EN771-6-0169	325e Ville de Terrebonne	187.0
EN771-8-0010	Multi-events	354.5
EN771-8-0093	Challenge Automobile sur Glace du Canada	5.0
EP043-9-0040	CFL	146.0
EP043-9-0041	NHL	181.0
EP043-9-0042	Club des Marins	3.0
EP043-9-0043	Expos de Montréal	39.0
EP043-9-0044	Maximum Blues	15.0
EP043-9-0226	Championnat du Monde de Triathlon	<u>5.5</u>
Total		<u>936.0</u>

Further, in the documents available for our review, we note that Ms D. Deslauriers corresponded with sponsorees as if she were a manager working for Everest Promotion's sponsorship division.

Art Tellier Contract

On April 1, 1999 PWGSC issued contract EP043-9-0051 to Everest Estrie for \$461,827 of production costs relating to the supply of promotional items. Everest Estrie subcontracted the work to Communications Art Tellier Inc. ("Art Tellier")¹. According to a purchase order dated April 16, 1999, Mr. Guité of PWGSC had approved a purchase order directly with Art Tellier. Art Tellier performed the work for the contract and billed Everest Estrie for \$390,000. Everest Estrie billed PWGSC \$68,835 (17.65%) in agency commissions related to the contract.

Based on the documentation provided to the COI, it appears that Everest Estrie earned their agency commissions of \$68,835 for preparing a purchase order to Art Tellier, billing PWGSC and paying Art Tellier for promotional items.

¹ Art Tellier is a company owned by Benoit Renaud.

Média/I.D.A. Vision Responsibilities as AOR for SPS Contracts

Média/I.D.A. Vision had one or two employees who were responsible for the management of the sponsorship files as an AOR. These employees did administrative verification for the receipt of funds from PWGSC and the issuance of cheques to agencies and sponsorees.

According to the contract between the GOC and Média/I.D.A. Vision dated March 31, 1998,¹ some of Média/I.D.A. Vision's obligations with reference to sponsorship were:

- “1. To monitor sponsorship events/activities according to agreements set by the Creative Advertising Agencies or Communication firms;
2. To ensure that Her Majesty receives value for the money;
...
8.To monitor the quality of services provided in respect to Sponsorship services.”

Based on the documentation provided to the COI, it appears that Média/I.D.A. Vision's employees did not:

- monitor the sponsorship events/according to the agreements;
- investigate whether the GOC received value for money; and
- monitor the quality of services provided in respect to Sponsorship services.

¹ Contract between the GOC and Média/I.D.A. Vision dated March 31, 1998, pages 15 and 16.

**13.5 Financial Impact
of Advertising and
SPS Contracts on
Results of Groupe
Everest
Companies**

13.5.1 Financial Scope Limitations

Tables 97 to 100 illustrate the trend in revenues and income for the Groupe Everest Companies for the period of 1995 to 2002. This information is based on the documents provided to the COI. We are unable to provide complete consolidated revenues and net income for the period under review, due to the following scope limitations:

- Groupe Everest did not prepare consolidated financial statements after the year ended December 31, 1999. In addition, we requested but were not provided with Groupe Everest's consolidated financial statements for the year ended August 31, 1999;
- We requested but were not provided with the internal financial accounting records (Adtraq) of all the Groupe Everest Companies for the period under review;
- We requested but were not provided with financial statements for Groupe Everest C.M. – P.C.R. Inc. for the year ended December 31, 2003; and
- We requested but did not have access to the Groupe Everest Companies' accountant's working papers for the period under review.

13.5.2 Revenues

From 1995 to 2002, Groupe Everest and its related companies had clients from the public and private sector. Table 96 summarizes Groupe Everest's combined revenues for the period 1995 to 2002 for the companies for which data was available. For the years 1995 to 1998, Kroll sourced the combined revenues from the consolidated financial statements of Groupe Everest. For the years 1999 to 2002, the combined revenues were prepared by Kroll utilizing the non-consolidated financial statements of Groupe Everest and the financial statements of the various operating companies eliminating the revenues from

parties under common control, as per the related party information disclosed in the notes to these financial statements¹.

Table 96: Groupe Everest Combined Revenues (\$000's)

Fiscal Year	Combined Revenues (Excl. Média/I.D.A. Vision)	Combined Revenues (Incl. Média/I.D.A. Vision)
1995	10,002	10,002
1996	17,372	17,372
1997	29,614	29,614
1998	24,855	47,887
1999	31,273	105,186
2000 ²	51,417	153,163
2001	28,466	145,585
2002	<u>13,233</u>	<u>114,841</u>
Total	<u>\$206,232</u>	<u>\$623,650</u>

Table 96 summarizes Groupe Everest's revenues from the GOC. Based on the financial information provided to the COI, we have been unable to determine all the revenues received by Groupe Everest related to the GOC total contracts. The sponsorship revenues were derived from the Kroll analysis of invoices submitted by Groupe Everest and paid by the GOC and the list of SPS contracts compiled by Kroll. We have estimated the advertising revenues based on the assumption that 75% of the contracted amounts were spent ³.

¹ For the 5 month period ended January 30, 2000, the revenues from parties under common control were not available and have not been eliminated above.

² Fiscal 2000 represents 16 months of revenue comprising the 5-month period ended January 31, 2000 and the 11-month period ended December 31, 2000.

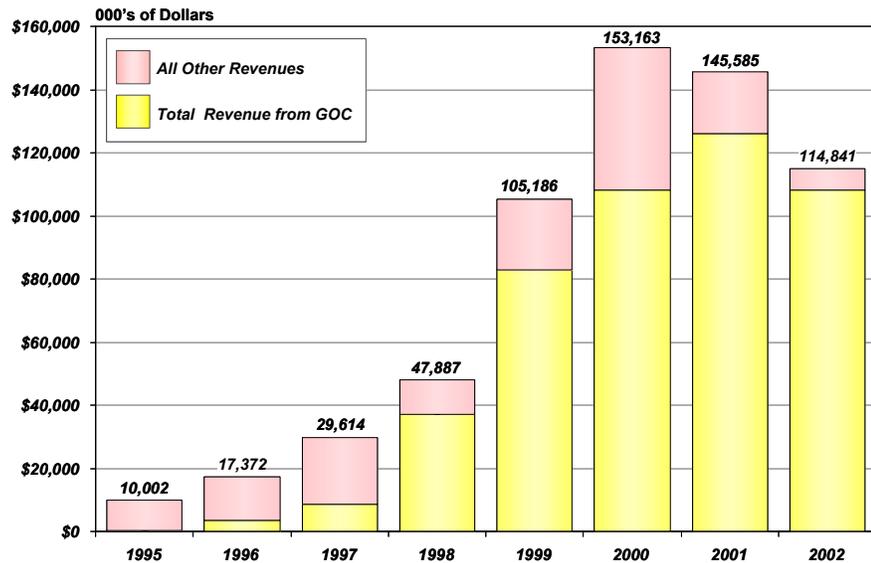
³ Based on the results of the analysis performed in Section 7.3.2.

Table 97: Groupe Everest Revenues from GOC (1995-2002) (\$000's)

Fiscal Year	Advertising		Média/I.D.A. Vision		Total –GOC
	SPS	Production	Media Division ¹	Sponsorship Division ¹	
1995	348.8	263.8	-	-	612.6
1996	1,278.2	2,455.0	-	-	3,733.2
1997	7,147.6	1,568.7	-	-	8,716.3
1998	12,197.4	1,622.8	5,018.5	18,023.5	36,862.2
1999	7,614.4	1,395.2	45,515.0	28,569.0	83,093.6
2000	4,946.9	1,425.8	72,391.5	29,620.9	108,385.1
2001	4,355.2	3,610.7	90,795.2	27,734.7	126,495.8
2002	3,724.3	3,217.7	82,483.2	18,839.4	108,264.6
Total	<u>\$41,612.8</u>	<u>\$15,559.7</u>	<u>\$296,203.4</u>	<u>\$122,787.5</u>	<u>\$476,163.4</u>

Based on the accounting records available, the combined revenues are \$456 million.

Table 97a – Groupe Everest Companies – Revenue from GOC and Total Revenues



¹ Source: Média/I.D.A. Vision – Adtraq information. Based on Média/I.D.A. Vision's fiscal year, Exhibit P-346, page 145.

Groupe Everest's sales from the GOC could have been as high as 28% of total sales excluding revenues from Média/I.D.A. Vision and 76% including revenues from Média/I.D.A. Vision.

Revenues by Client

Refer to Exhibit P-346 pages 130 to 151 for summaries of revenue by client for the Groupe Everest Companies for the period 1995-2002.

Table 98 below summarizes for each of the Groupe Everest's Companies to which the majority of the SPS and advertising contracts were awarded, the revenues earned from the various departments within the Government of Canada¹ as a percentage of total sales² based on available information:

Table 98: Groupe Everest Sales to GOC

Group Everest Company	Sales to PWGSC and Communication Canada as % of Total Sales	Sales to all GOC Departments as % of Total Sales³
Everest Commandite	44.2%	47.2%
Everest Publicité Promotions	30.0%	39.0%
Everest Relations Publiques	5.9%	29.1%
Média/I.D.A. Vision	34.0%	100.0%

13.5.3 Gross Margins

Table 99 summarizes the combined gross margins for the Groupe Everest Companies as reported in their financial statements. Where there are related party purchases, these costs are included in the gross margin of the purchasing company.

Since consolidated financial statements were not available for the full period under review we have simply combined the

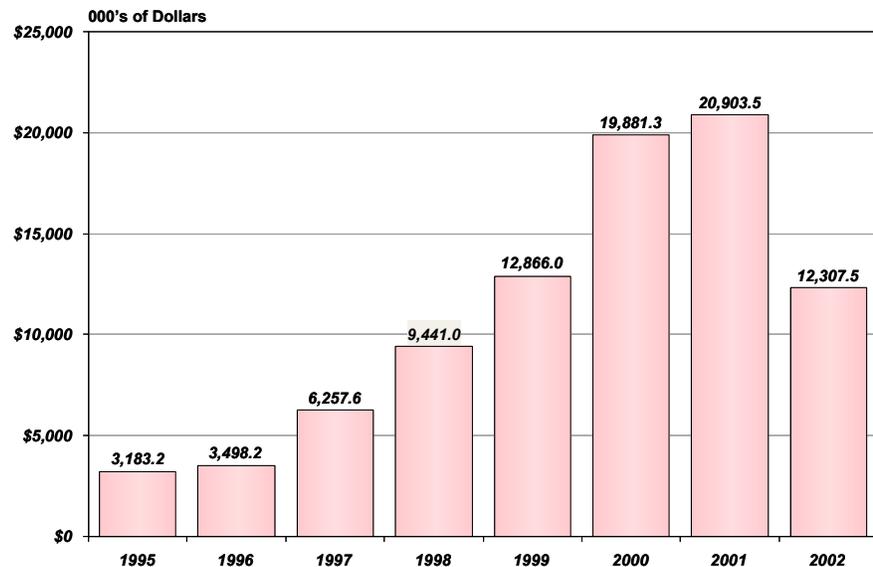
¹ Excludes sales to Crown Corporations.

² Information was not available for the other companies.

³ Includes sales to PWGSC and Communication Canada.

financial statements for the results noted below. It is possible that consolidated financial statements would produce a different result. However, the trend in gross margins would likely remain unchanged.

Table 99: Groupe Everest Companies – Gross Margins



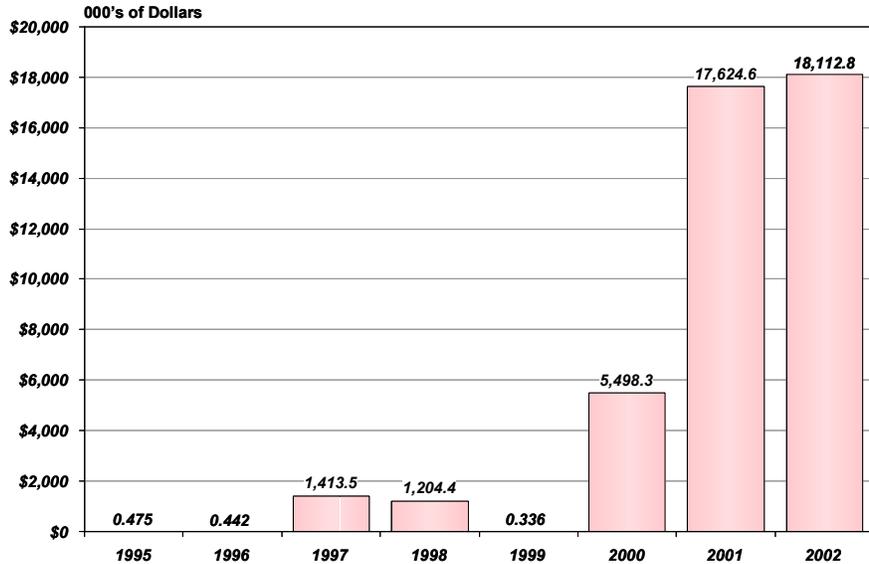
We have estimated that the gross margin earned by Groupe Everest from the GOC is approximately \$26 million. This number represents 28% of the total gross margin earned during the period from 1994-95 to 2001-02.

13.5.4 Net Income

Table 100 summarizes the combined net income for the Groupe Everest Companies.

Since consolidated financial statements were not available for the full period under review we have simply combined the financial statements for the results noted below. It is possible that consolidated financial statements would produce a different result.

Table 100: Groupe Everest Companies – Net Income



Due to the wide mix of clients in the Groupe Everest Companies and their complex operating structure, it is difficult to separate the profits generated by the Groupe Everest Companies from the GOC contracts from the overall results.

13.6 Notable Uses of Funds by Groupe Everest

13.6.1 Salaries and Dividends

Salaries – Mr. C. Boulay and Ms D. Deslauriers

Based on the personal income tax returns provided to the COI, Mr. C. Boulay and Ms D. Deslauriers received salaries of \$4.4 million and \$105,793 respectively, over the period 1995 to 2003. Ms D. Deslauriers' personal income tax returns were not available for the four years 1996 to 1999.

Salaries – Other Shareholders of Groupe Everest

We reviewed the Groupe Everest and related companies salary registers that were provided to the COI in an attempt to determine the salaries paid to the other shareholders of Groupe Everest.

Based on our review of the information provided, salaries and bonuses paid from 1995 to 2002 to Jean Bernard Belisle, Jean-Pierre Toupin and Claude Lacroix totaled \$2.4 million.

Dividends

From 1993 to 2003 Groupe Everest paid a total of \$31.2 million in dividends to its shareholders as follows:

**Table 101: Dividends Paid by Groupe Everest
(\$ 000s)**

	<u>Dividends</u>	<u>Capital Dividends</u>	<u>Total</u>
1994	200	-	200
1995	300	-	300
1996	-	-	-
1997	503	-	503
1998	-	-	-
1999	-	-	-
2000	700	-	700
2001	2,950	-	2,950
2002	9,200	17,385	26,585
2003 ¹	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Total	<u>\$13,853</u>	<u>\$17,385</u>	<u>\$31,238</u>

Over the same period, 1994 to 2003, 140638 Canada Inc., Mr. C. Boulay's holding company, received total dividends of \$25.5 million primarily from Groupe Everest.²

13.6.2 Political Contributions

The Groupe Everest Companies, its employees and shareholders made political contributions of \$194,832 from 1996 to 2003. Refer to Exhibit P-340(B), page 74 for details.

¹ Groupe Everest financial statements were not available for 2003.

² Source: 140638 Canada Inc. financial statements.

13.6.3 Transactions with Oro Communications Inc.

Sales to Oro

Oro Communications Inc. ("Oro") paid \$60,000 to Everest Estrie related to the following invoices:

Table 102: Sales to Oro

<u>Invoice Date</u>	<u>Invoice #</u>	<u>Amount</u>
October 29, 2001	14970	20,000
November 26, 2001	15092	20,000
December 20, 2001	15220	<u>20,000</u>
Total		<u>\$60,000</u>

We were only able to locate invoice #14970 which described the work performed as market research. The docket description for all three invoices was market research. No further documentation was provided to the COI by Groupe Everest related to this transaction.

Payments to Oro

In September 2000, Groupe Everest paid to Oro \$5,992. The invoice issued by Oro to Groupe Everest stated that the invoice was for four days of professional consultation.

13.7 Scope Limitations

The following documentation was requested but not available for our review:

1. The consolidated financial statements for Groupe Everest C.M.-P.C.R. Inc. for the year ended August 31, 1999. In addition, consolidated financial statements were not prepared for fiscal years 2000 to 2003.
2. The non-consolidated financial statements for Gestion Opération Tibet Inc. (formerly Groupe Everest C.M.-P.C.R. Inc.) for the year ended December 31, 2003;
3. The complete contract files for all sponsorship contracts covering the GOC's fiscal years 1994/1995 to 2002/2003; we were provided with the contract files for the years 1998/1999 to 2002/2003 – however, these files do not

appear to be complete. According to Mr. C. Boulay, these files were given to Draft upon their purchase of the Groupe Everest Companies.

4. The financial statements for Caliméro Partenariat Inc. for the years ended December 31, 1997 to December 31, 1999.
5. The corporate income tax returns for Caliméro Partenariat Inc. for the years ended December 31, 1997 to December 31, 1999.
6. The personal income tax returns for Ms D. Deslauriers for the years ended December 31, 1996 to 1999;
7. The corporate income tax returns for 140638 Canada Inc. for 2001 to 2003.
8. The electronic internal financial accounting records for Groupe Everest C.M.-P.C.R. Inc., and Everest Publicité (G.E.C.M.) Inc.
9. Complete copies of the investment accounts for Mr. C. Boulay, Ms D. Deslauriers and the Groupe Everest Companies;
10. Complete copies of the banking records for Mr. C. Boulay and Ms D. Deslauriers. We were not provided any bank statements prior to January 1999, nor were we provided with copies of the cheques for the full period under review.
11. Complete salary registers for Groupe Everest and related companies for the years 1994 to 2003. We were provided with various registers, but the registers provided do not appear to be complete.
12. Copies of cancelled cheques for all the Groupe Everest Companies. We were provided with access to certain cheques, however it appears that the documents were not complete.

13. Access to the accountants' working papers for review of period end journal entries and review of consolidated working papers of the Groupe Everest Companies.

**14.0 DETAILED
FINDINGS - COFFIN
COMMUNICATIONS**

**14.1 Business
Background**

Coffin Communications (2794101 Canada Inc.) (“Coffin”) commenced business in 1992 and is 100% owned and operated by Mr. Paul Coffin. During the period Coffin obtained GOC business, it had two full time salaried employees, Paul Coffin and his son, Mr. Charles Coffin. Mr. P. Coffin’s business relied on subcontracted expertise for purposes of fulfilling mandates, particularly for creative design and development. In addition to his interest in Coffin, Mr. P. Coffin was president of a number of real estate holding companies.

**14.2 GOC Selection
Process**

Coffin was selected as agency or part of a consortium of agencies, to provide services to the GOC as a result of the following selection processes.

14.2.1 1997 Agency Selection Process

For purposes of this process, Coffin submitted its response as a venture with SOS Communications, a company owned by Mr. Robert Wolowich. All resulting work generated from this process was in the name of Coffin.

14.2.2 May 2001 Agency Selection Process

Coffin qualified for a second time to provide services related to SPS activities as part of this process. Coffin significantly decreased its rates as part of the process.

14.2.3 September 2000 Canadian Information Office

Coffin was part of a consortium of firms, consisting of Groupaction, Vickers and Benson, Compass and Focus that qualified as Ensemble Consortium to provide services to the CIO. Based on documentation reviewed, Coffin’s role was to be “Special Projects”. However, Coffin received no work through Ensemble Consortium.

14.3 Contracts with GOC

14.3.1 SPS Contracts

As identified in Schedule 3 to this report, Coffin received some 80 SPS contracts during the period of GOC fiscal 1994-95 and 2002-03. Coffin faces criminal charges in respect to 32 of these contracts.

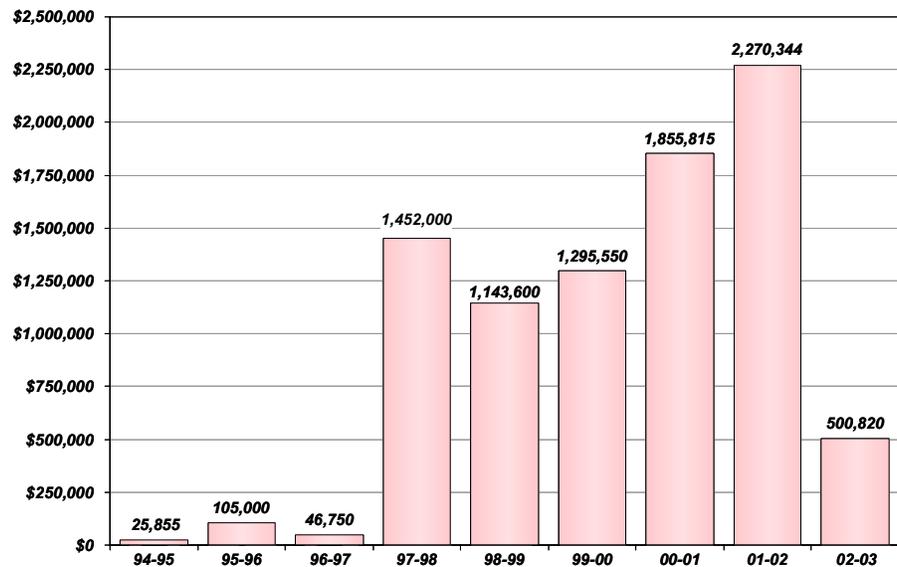
Table 103 lists by year and category of expenditure the total value of the SPS contracts received by Coffin:

Table 103: Communication Coffin – Total Value of SPS Contracts

<u>Year</u>	<u>Sponsorship</u>	<u>Communication Agency Commissions</u>	<u>AOR Fee</u>	<u>Production/ Professional Fees</u>	<u>Total</u>
1994-95	-	-	-	25,855	25,855
1995-96	-	-	-	105,000	105,000
1996-97	-	-	-	46,750	46,750
1997-98	835,000	100,200	-	516,800	1,452,000
1998-99	565,000	67,800	16,050	494,750	1,143,600
1999-00	630,000	75,600	18,000	571,950	1,295,550
2000-01	1,157,000	138,840	33,000	526,975	1,855,815
2001-02	1,775,500	213,060	53,265	228,518	2,270,343
2002-03	<u>430,000</u>	<u>51,600</u>	<u>12,900</u>	<u>6,319</u>	<u>500,819</u>
Total	<u>\$5,392,500</u>	<u>\$647,100</u>	<u>\$133,215</u>	<u>\$2,522,918</u>	<u>\$8,695,733</u>

Table 104 illustrates the total value of SPS contracts for each fiscal year for 1994-95 to 2002-03:

Table 104 - Communication Coffin – Total Value of SPS Contracts



In addition to the 80 SPS contracts, Coffin was also a subcontractor to Lafleur Communication Marketing in relation to the project/event “Sur la route d’Atlanta”, which was included in Lafleur’s contract EN771-6-0030. In 1996 Coffin was not an SPS agency and Lafleur was the contracting vehicle. Mr. P. Coffin billed \$225,000 in respect of this work.

14.3.2 Advertising Contracts

As set out in the listing of advertising contracts attached as Schedule 10, Coffin was the communication agency in respect of \$7,838,639 worth of advertising contracts. Coffin’s involvement in advertising consisted of two events: (i) advertising for the Clarity Act and (ii) advertising for the Canada Health Care campaign, referred to in testimony as the “Gingko Contract”.

14.4 Management of Contracts

14.4.1 General Observations

As a result of our review of Coffin’s billings to the GOC and our review of other available documentation obtained during the course of our mandate, we note the following significant issues regarding Coffin’s management of GOC contracts:

-
- i) On October 2, 2002, in response to a request by Consulting and Audit Canada to conduct a time audit related to time charges against sponsorship contracts, Mr. P. Coffin wrote to Ms Myra Conway of PWGSC and indicated that Coffin did not have a time and billing system until the summer of 2000;
 - ii) In spite of not having a time and billing system, Coffin billed the GOC during the period April 1, 1997 and May 31, 2001 a total of \$1,295,395 for agency time charges;
 - iii) We note that Coffin's billing practice changed in GOC fiscal 2001-02. Coffin billed a minimal amount as agency time charges.

14.4.2 Example of a Specific Contract Related Issue

In GOC fiscal 1999-2000 Coffin was the communication agency contracted with for purposes of production and media placement in respect of the Clarity Act. Documentation related to this contract has been filed before the COI as Exhibit C-373.

In reviewing Coffin's invoicing to PWGSC in respect to this advertising initiative we noted the following issues:

- i) Coffin issued invoice #782 in the amount of \$28,308.19, before GST, which included the following details:

	<u>Estimate</u>
Subcontracted cost	\$18,521.62
Agency commission of 17.65%	3,269.07
Agency production re: professional fees for 39.5 hours (Account Services Team)	<u>6,517.50</u>
Total	<u>\$28,308.19</u>

The subcontracted cost was supported by invoice #01013 from Eminence grise Inc. in the amount of \$18,521.62 for 50% of the 11.75% commission to be earned by the communication agency on the media placement. Details of the calculation were provided on the invoice. Coffin

was to receive from Média/I.D.A. Vision 11.75% of media placement. Coffin's invoice #782 was submitted to the GOC and paid.

As the GOC was already paying the media commission to Coffin via Média/I.D.A. Vision, Coffin should not have also been billing the GOC for a media commission sought by a subcontractor. Therefore, while we can not comment on the appropriateness of the \$6,517.50 of professional fees billed by Coffin on invoice #782, we can state that the remaining \$21,790.69 (Eminence grise Inc. fee of \$18,521.62 plus the agency commission of 17.65%) should not have been billed to the GOC.

- ii) The amount of the overcharge was then compounded when Coffin also submitted invoice #782R. The Coffin invoice details were the same as #782, however, the supporting invoice #01013 from Eminence grise Inc. did not disclose the details of the basis of the \$18,521.62 charged. Coffin's invoice #782R was also paid by the GOC. The GOC issued payment for invoice 782 and 782R on the same cheque. One of the payments made by the GOC of \$28,308.19 plus taxes was treated by Coffin's accountants as being a duplicate payment and was identified as an amount payable to the GOC as part of Coffin's financial statements.

Based on a review of the accounting records of Coffin, Eminence grise Inc. did not receive a second payment from Coffin in respect of media commissions.

As invoice #782R appears to be a double billing, the total amount of the overcharge to the GOC in respect of these two invoices was, at a minimum, \$50,098.88 plus tax (\$21,790.69 from invoice #782 discussed above, plus the full value of invoice #782R).

**Results of Coffin
Communication**

The following Table summarizes Communications Coffin's revenue by year and the amount of revenue which is related to GOC contracts for the years ended October 31, 1996 to October 31, 2002 based on accounting records prepared by Coffin's outside accountants:

Table 105: Comparison of Coffin Total Revenue to Revenue from GOC 1996-2002

<u>Year</u>	<u>Total Revenue</u>	<u>Revenue from GOC</u>
1996	\$641,443	\$288,470
1997	723,495	671,641
1998	1,310,572	1,117,872
1999	811,601	675,016
2000	1,239,590	1,049,355
2001	1,023,392	893,214
2002	<u>277,990</u>	<u>212,833</u>
Total	<u>\$6,028,083</u>	<u>\$4,908,401</u>

**14.6 Notable Uses of
Funds by Coffin
Communications**

14.6.1 *Income to Coffin Family*

Coffin effectively paid the majority of earnings to Mr. P. Coffin and Mr. Charles Coffin via salary and dividends. We note that in addition, based on the summary of financial statements, Coffin's retained earnings within the company rose from negative \$820 at October 31, 1996 to a high of \$324,648 on October 31, 2001.

The following table summarizes the yearly income of Communication Coffin, dividends paid to Mr. P. Coffin and the salaries paid to Mr. P. Coffin ("PC") and Mr. Charles Coffin ("CC"):

Table 106: Summary of Coffin Earnings and Dividends and Salaries Paid

<u>Year</u>	<u>Earnings</u>	<u>Dividends – PC</u>	<u>Salary – PC</u>	<u>Salary – CC</u>
1996	(\$40,4	\$130,595	\$24,000	\$4,500
1997	77,0	-	70,300	12,500
1998	130,6	-	161,800	40,619
1999	61,8	-	131,600	58,720
2000	119,7	63,500	182,411	46,617
2001	7,2	-	167,706	73,915
2002	<u>1,7</u>	<u>29,000</u>	<u>17,265</u>	<u>20,950</u>
Total	<u>\$357,8</u>	<u>\$223,095</u>	<u>\$755,082</u>	<u>\$257,821</u>

14.6.2 Payments to Political Parties

Coffin made the following payments to federal political parties:

Table 107: Summary of Payments Made to Federal Political Parties

<u>Year</u>	<u>Progressive Conservatives</u>	<u>Liberal</u>
1996	300	-
1997	-	-
1998	100	-
1999	-	14,000
2000	-	8,300
2001	-	5,500
2002	<u>-</u>	<u>1,500</u>
Total	<u>\$400</u>	<u>\$29,300</u>

14.6.3 Payments to Mr. Guité and Oro Communications

Coffin and Oro, a company owned by Mr. J.C. Guité, entered into an agreement dated January 2, 2000 whereby Oro would be paid \$15,000 to “provide marketing services to develop private sector sponsorship in support of the Atlantic Formula Series in Trois-Rivières, Montréal , Toronto and Vancouver.” The full value of the agreement was paid to Oro. In addition, Oro was paid \$5,600 in respect of an invoice for services provided regarding “H2O Recreation”.

Mr. P. Coffin also paid \$27,000 to Mr. J.C. Guité for the purchase of a boat.

**15.0 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 1-4.

In March 2000, the assets of Vickers & Benson were sold to a new corporation, NEWBO 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

Year	Contracts with Vickers & Benson Communications	Directions with Média/I.D.A. Vision	Total
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>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

	Contracts for Media Purchases	Contracts for Work by Agency	Total
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.

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:

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

	<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 “ <i>Canada in the Global Economy</i> ” 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 1, 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

<u>Contract #</u>	<u>Department</u>	<u>Campaign</u>	<u>Amount</u>
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.

**16.0 DETAILED
FINDINGS - BCP
GROUP**

**16.1 Business
Background**

BCP Ltée (“BCP”), formerly “Le Groupe BCP Ltée”, was established as an advertising agency in Canada in 1963. In 1984, Mr. Yves Gougoux acquired (indirectly through BCP Canada Inc.) 50% of the outstanding shares of BCP and became the President of the company. He acquired additional shares in 1989 and became the majority shareholder of BCP. Between 1989 and 1996, minority shareholders were gradually bought out.

In 1996, a corporate reorganization took place in connection with the planned sale of a significant part of BCP Canada to Publicis S.A., a French public company. As a result of this reorganization, the assets included in the transaction were now held by 9039-4073 Québec Inc. (Publicis•BCP Inc.), a newly incorporated subsidiary of BCP. The assets transferred included client accounts (other than government accounts and conflicting clients) and shares of all subsidiaries (excluding BCP). On September 10, 1996, 70% of the shares of 9039-4073 Québec Inc. were sold to Publicis S.A. The remaining 30% was retained by Mr. Gougoux through his holding companies.

The ownership percentage Mr. Y. Gougoux and BCP held in other companies at various dates, before and after the 1996 reorganization, is noted in the Corporate Organization charts produced as Exhibit P-419(A) page 2 to 8.

**16.2 GOC Selection
Process**

Table 112 lists the known agency selection competitions where BCP qualified as the winning agency, including the 1994 Tourism selection competition.

Table 112:: BCP - Agency Selection Competitions

<u>Date of Final Report</u>	<u>Department</u>	<u>Winning Agency</u>
Sept. 19, 1994	Tourism	Vickers & Benson
February 8, 1995	Heritage Canada	Groupe Everest; BCP Canada; Compass Communications; Palmer Jarvis Communications; Vickers & Benson
September 11, 2000	Health Canada	Le Groupe BCP Ltee

It should be noted that, despite the fact that BCP was not the selected agency for Tourism, more than \$65.7 million in contracts were awarded to BCP by Tourism from 1994 to 2003, as mentioned at page 8 of Chapter 4 of the AG's report.

16.3 Contracts with GOC

16.3.1 SPS Contracts

Between 1998/96 and 1998/99 GOC fiscal years, BCP managed nine SPS contracts with a total value of \$6.3 million, as detailed in Exhibit P-419(A) page 75 and 76.

Two contracts were issued prior and during the 1995 referendum campaign, including contract EN771-5-U100 for \$5,460,000, of which \$3,400,000 was related to media purchase.

16.3.2 Advertising Contracts

Between 1994/95 and 2002/03, BCP acted as communication agency for advertising contracts with a maximum value of \$152.5 million. A complete list of the advertising contracts is included as Schedule 10 of this report.

Of the \$152.5 million, \$68.0 million represented media purchases through the AOR (Genesis Media and/or Media/I.D.A. Vision). As the communication agency, BCP would receive a commission of 11.75% of the media purchased.

16.4 Management of Contracts

For the fiscal year 1995 to 2003, the contracting entity for all of the SPS and advertising contracts was BCP.

In order to fulfill these contracts, BCP subcontracted part of the work to subsidiaries, related companies and/or companies

under the control of Publicis Canada Inc., which was in turn controlled by a France-based company.

16.5 Financial Impact of Advertising and SPS Contracts on Results of BCP

16.5.1 Level of GOC Business

The following table presents a comparative analysis of BCP gross billing versus revenue for the years 1994 to 2003:

Table 113: BCP Gross Billing versus Revenue for 1994 to 2003

	Total (‘000)	GOC (PWGSC and other Departments) (‘000)	Crown Corporations (‘000)	Total GOC and Crown Corporations (‘000)
Gross billing		132,486	176,189	308,675
External costs		110,132	160,755	270,887
Revenue	90,700	22,354	15,434	37,788
Percentage of total revenue	<u>100%</u>	<u>24.7%</u>	<u>17.0%</u>	<u>41.7%</u>

As noted in Table 113, during the period from 1994 to 2003, BCP’s PWGSC and other departments’ revenues from both SPS contracts and Advertising contracts totaled \$22.4 million (after deduction of external costs), representing 24.7% of BCP’s total revenues of \$90.7 million for the period. In addition, advertising contracts were also awarded to BCP during the same period by Crown Corporations. From 1994 to 2003, BCP generated a total of \$15.4 million in revenue from Crown Corporations, representing 17.0% of BCP’s total revenues.

In summary, from 1994 to 2003, PWGSC and other departments and Crown Corporations combined revenues totaled \$37.8 million, or 42% of BCP’s total revenues.

16.5.2 Revenue from Political Associations

The analysis of BCP’s revenue by client revealed that from 1994 to 2003 advertising related services were rendered to a number

of political associations including Option Canada, the Liberal Party of Canada and The Federal Liberal Agency of Canada.

Option Canada

Option Canada was incorporated on September 7, 1995. We understand that they received \$4.8 million from Canadian Heritage before the Quebec referendum.

From September 15 to October 5, 1995, shortly prior before the referendum, BCP invoiced Option Canada for a total of \$2.6 million (including taxes) for media purchases and advertising related services.

Liberal Party of Canada and The Federal Liberal Agency of Canada

During the 1997 and 2000 election campaigns, BCP rendered advertising related services, including media purchases, to the Liberal Party of Canada and The Federal Liberal Agency of Canada for which BCP was paid \$4.5 million (\$2.0 million for the 1997 campaign and \$2.5 million for the 2000 campaign).

16.6 Notable Uses of Funds by BCP

16.6.1 *Salaries and Management Bonuses*

As previously mentioned, Mr. Y. Gougoux is the president and controlling shareholder of BCP. From 1994 to 1996, he received salaries and bonuses for a total of \$1.6 million. We understand that after 1996, Mr. Y. Gougoux was paid directly by Publicis Canada Inc.

16.6.2 *Political Contributions*

From 1993 to 2003, BCP made political contributions to the Liberal Party of Canada for a total of \$97,720 as recorded in the books and records of the company. Receipts were issued by Elections Canada for a total of \$86,611, as per Elections Canada's Internet site.

KROLL LINDQUIST AVEY CO.

Per: Robert M. Macdonald, CA•IFA