

Auditor slams Ottawa for sponsorship fiasco

Elizabeth Thompson

CanWest News Service

Wednesday, February 11, 2004

OTTAWA -- The federal government's controversial sponsorship program reached into the RCMP, Via Rail and Canada Post to funnel millions of dollars to friends of the Liberal party, auditor general Sheila Fraser says in a bombshell report released Tuesday.

Scrambling to disassociate himself from the scandal, Prime Minister Paul Martin immediately announced a public inquiry into the affair and fired former public works minister Alfonso Gagliano from Denmark, where he was serving as Canada's ambassador.

Fraser revealed that Gagliano's department used fictitious contracts, artificial invoices and elaborate accounting devices to funnel tens of millions of dollars to sponsorship projects in Quebec.

The "deeply disturbing" practices continued virtually unchecked for four years, often using Crown corporations to make payments the government could not make itself, Fraser reported.

Liberal-friendly communications firms collected millions of dollars in commissions -- at times for simply transferring cheques from one body to another without providing any other service.

Speaking to reporters, Fraser said she was shocked and angered by what the investigation revealed.

"When we talk about fictitious bills, I never thought I would see something like it in the public service."

Fraser's report had barely hit the table in the House of Commons when Martin moved to try to contain the damage and take the wind out of opposition sails.

"It is unacceptable, it is intolerable," Martin said as he outlined a series of measures designed to get to the bottom of the affair, recover money lost and make sure it never happens again.

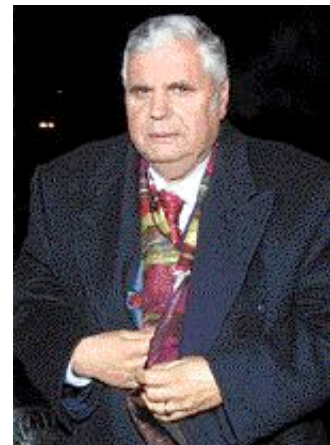
"We will, therefore, move in a resolute way," he said.

Fraser's 34-page report into the sponsorship program run by the Public Works Department's Communications Co-ordination Services Branch (CCSB) between 1997 and 2001 details how \$250 million was spent to sponsor a variety of events in Quebec -- \$100 million of it going to communications agencies in the form of fees and commissions. Using flow charts and diagrams, she also details the role several Crown corporations and communications firms played in the complex web of transactions.



Prime Minister Paul Martin in the House of Commons, Tuesday

CREDIT: Canadian Press



Alfonso Gagliano

CREDIT: Canadian Press



Sheila Fraser

CREDIT: Canadian

"We found that the federal government ran the sponsorship program in a way that showed little regard for Parliament, the Financial Administration Act, contracting rules and regulations, transparency and value for money," she wrote. "These arrangements -- involving multiple transactions with multiple companies, artificial invoices and contracts, or no written contracts at all -- appear to have been designed to pay commissions to communications agencies while hiding the source of funding and the true substance of the transactions."

For example, in the case of a television series on former hockey great Maurice Richard, the CCSB got Via Rail to advance money to the show's producer L'Information Essentielle. CCSB then awarded a contract to Lafleur Communication to reimburse Via Rail for the money it advanced -- a process that allowed Lafleur to pocket \$112,500 in commission.

"In our opinion, CCSB created a fictitious contract and made payments of \$862,500 that contravened the Financial Administration Act. . . . It appears that these transactions were part of an elaborate process used to obtain funds from current (public works) appropriations, in order to pay for a highly irregular and questionable expenditure incurred by Via Rail in the previous year and also to facilitate the payment of a commission to the communication agency."

Fraser also highlighted questionable practices involving the RCMP itself, which has been charged with the criminal investigation into the sponsorship scandal. Between 1997 and 1999, the force obtained more than \$3 million through eight separate contracts for its 125th-anniversary celebrations.

"A separate non-government bank account was used for all deposits and payments to the RCMP's Quebec Division; this was a contravention of the Financial Administration Act. . . . In addition, all transactions for Quebec Division were recorded in a manual accounting system rather than in the RCMP's corporate accounting system. We were unable to verify the transactions from the Quebec bank account because some of the supporting documents had been destroyed."

However, speaking to reporters, Fraser pointed out that the sponsorships were handled by the RCMP's administrative branch -- not its criminal investigators.

The report clearly ties Gagliano to what was going on, citing a number of cases in which he or officials in his office overruled decisions of bureaucrats and ordered sponsorships to go ahead. For example, when the executive director of the CCSB declined in 1999 to sponsor the series called Innovation, the production company went to the minister's office which agreed the government would sponsor it.

On another occasion, the Old Port of Montreal wanted a giant video screen and CCSB refused. Following a presentation by the Old Port to Gagliano, CCSB offered verbally to provide \$1.5 million, then used communication firms like Lafleur Communication and Media/I.D.A Vision to funnel money to the Old Port.

The problem, said Fraser, was not a lack of rules for government sponsorships but rather that the rules weren't followed.

Government officials, including former prime minister Jean Chretien, have said the sponsorship program was necessary to bolster national unity in the wake of the 1995 referendum on sovereignty, but Fraser said that explanation just isn't good enough.

"That has certainly been the story that some people have told us, that they were fighting a war but I really don't believe that the results always justify the means."

