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## Bureaucrat guilty in \$145M DND invoicing fraud

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CanWest News Service

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OTTAWA -- An invoicing heist perpetrated on the Department of National Defence took an unexpected turn yesterday as Paul Champagne -- the man accused of orchestrating it -- pleaded guilty to fraud and breach of trust.

Over the course of nearly a decade ending late in 2003, Champagne had funneled more than \$100-million into bank accounts he controlled -- payments for goods and services that were never delivered.

The scheme was complicated, but Champagne gained enough authority within DND to order goods and direct payments through intermediaries to a company he controlled.

"I am accepting responsibility for my actions," Champagne said yesterday. His sentencing hearing has been set for January.

The *National Post* first reported the story about the massive fraud in March, 2004.

At the time, Champagne denied wrongdoing and insisted he became a multi-millionaire through stock market investments and luck at Las Vegas gaming tables.

But it was revealed that Champagne amassed more than \$20-million worth of investments and residential real estate in Canada, Florida and the Caribbean, including a \$2-million beachfront mansion in the Turks and Caicos.

His home in Ottawa was in an exclusive gated community with tennis courts, a gym and a pool. His third, three-car garage home in Hudson, Fla., was on a lush golf course development and also had a pool.

During an interview with CanWest News Service yesterday, Champagne expressed surprise he had been able to run the scheme as long as he did.

One consideration involved the amount of money he saved DND by reorganizing the way the department managed its computer maintenance contracts.

With his experience at high-tech firms, he was able to show DND how to save substantial sums by replacing old computers. This advice allowed him to build up a considerable amount of goodwill and trust within DND.

Then, starting in about 1995, Champagne made the federal budgeting system work to his advantage.

"We found ways to justify the spending of year-end allocations," he said. "If we didn't use it, we'd lose it," he added in reference to DND budgets that, like all federal departments, have a March 31 fiscal year-end.

Departments generally cannot transfer money left over from one year to the next, providing great incentive to spend on goods and services during the final weeks of the fiscal year. The rush of year-end contracts made it easier to disguise illegitimate deals.

In the private sector, senior managers are often rewarded for coming up with ideas that save their employers lots of money, as he had done with DND's computer maintenance deals. Champagne, 49, said "there was an element of this" in his thinking.

"As time went on, it got easier to justify what we were doing."

An agreed statement of facts between the Crown prosecutor and Champagne offers an insight into how Champagne played the system. The statement notes that Champagne arranged for business colleagues Peter Mellon (who owned the Baxter Group) and Cholso Manso (proprietor of Avemore) to hire senior DND employees and supervisors at "lucrative" rates.

"The high turnover in staff contributed to inexperienced staff replacements," the statement noted, "and facilitated Champagne's influence within the procurement section."

Champagne, Mellon and Manso were all charged by the RCMP with fraud and other crimes in January, 2006.

Neither Mellon nor Manso appeared in court yesterday. Their cases are scheduled to be heard Sept. 17.

The statement of facts released in the Champagne case suggests the unusual pattern of invoices was first picked up by Hewlett Packard, which noticed its accounts receivables had become unusually high. The statement provided no timeline but HP's revelation likely occurred in 2000 or 2001.

After trying to resolve matters directly with Champagne, HP took up matters with DND, precipitating the massive government audit that uncovered the scheme.

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