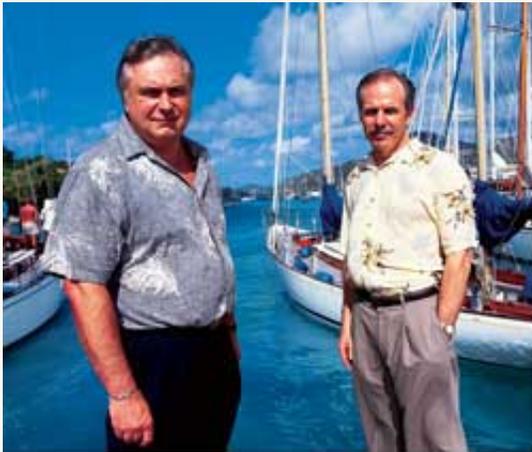


## Our man in Antigua

By Paul McLaughlin

Photography: Ken Maguire/Klix Pix



For Doug Kalesnikoff (left) and Stewart Kingdon, spending a winter working under the Caribbean sun is a mixed blessing

### AND THE STORY OF HOW HIS TINY SASKATOON FIRM CAME TO BE VIEWED AS THE FORENSIC FINANCIAL INVESTIGATORS OF CHOICE IN THE CARIBBEAN

It was a triumphant moment for Doug Kalesnikoff. The 47-year-old Canadian forensic accountant, the only CA•IFA in Saskatchewan, was testifying at the royal commission of inquiry into the Medical Benefits Scheme (MBS) of Antigua and Barbuda when he was asked a hypothetical question by Henry Browne, legal counsel for an external auditor to the MBS.

The date was Dec. 11, 2001 and the setting was the large Exhibition & Cultural Centre in St. John's, the capital of Antigua, a small island in the middle of the Leeward Islands in the Eastern Caribbean. Kalesnikoff had been hired by the commission in late summer 2001 to conduct a forensic audit and investigation into allegations of corruption involving the MBS. His appointment was due in part to his success in a similar role on other high-profile cases in the Caribbean.

Established in 1978, the MBS was a government program that provided a variety of medical benefits — including financial assistance for overseas treatment — to residents of Antigua and Barbuda. The scheme was funded by salary deductions of 3.5% from employees and matched by their employers. A few years ago, allegations of financial wrongdoing began to emerge.

The Antigua Labour Party government of Prime Minister Lester Bird tried several methods to diffuse the growing scandal — including firing two cabinet ministers, one of whom was the attorney general — but it didn't succeed. When 12,000 adults (out of a population of 70,000) signed a petition in spring 2001 calling for an investigation, Governor General Sir James Carlisle was forced to intervene. Carlisle ordered a royal commission to determine whether the allegations were true.

One of the main arrows fired at the MBS targeted the apparent misuse of funds by members of the government, including cabinet ministers. Kalesnikoff's small investigative team discovered evidence that suggested cabinet ministers were able to obtain MBS funds for a variety of questionable purposes simply by requesting them. Before several hundred onlookers, Browne tried to suggest this was an acceptable way for a government to conduct business.

"[If] you get a directive from the cabinet, sir, addressed to you: please pay into account 464 at Toronto Dominion Bank the sum of \$1 million, you're going to go behind that and ask the cabinet why?" Browne asked Kalesnikoff.

"Yes," the Saskatoon-based CA replied.

"Oh yes?" Browne challenged.

"Oh yes," Kalesnikoff repeated.

"Well, we don't do that here," Browne concluded.

"Maybe that's the problem," Kalesnikoff said wryly, triggering hoots of laughter from the audience.

As Kalesnikoff recalls the moment months later, an impish smile breaks easily on his round face. Graced with a warm countenance and soft voice, they belie his growing reputation in the Caribbean as a relentless and incorruptible investigator. "I must say that Doug

Kalesnikoff and his team have done a great job in uncovering documents I didn't think would ever emerge," says Errol Cort. A former attorney general of Antigua, Cort was dismissed from cabinet in 2001 in what he believes was an attempt by Prime Minister Bird to make him a scapegoat for the MBS scandal. When Kalesnikoff was appointed, says Cort, he cynically assumed the Canadian CA would be "tainted" through offers of work and other perks in exchange for turning a blind eye to anything that would embarrass the government.

"That doesn't seem to have happened," he now concludes.

Kalesnikoff is on the outdoor patio of his team's small office, a converted two-room suite in the Royal Antiguan, a sprawling oceanfront resort about a 15-minute drive west of St. John's. At his side is 52-year-old Stewart Kingdon, a former RCMP commercial crime investigator who makes up the other half of Kalesnikoff, Kingdon & Associates, which specializes in forensic accounting and corporate investigations. Both natives of small Saskatchewan towns, they met during the latter half of Kingdon's 29 years in the RCMP and formed a partnership soon after Kingdon retired from the force in 1999. The inquiry's offices are all located at the resort, primarily to accommodate the needs of its three commissioners, none of whom live in Antigua.

"It's hard for people back in Canada not to think that we're just down here sitting on the beach having a great time," says Kalesnikoff, who sports a mediocre tan, despite having traveled to the Caribbean for cases more than 25 times in the past five years, including 26 weeks in 2001. "But the reality is that we work really hard and that often the conditions are very tough. On our first assignment, we worked on the second floor of a building that was not air-conditioned and the temperature was in the 30s."

The trip from Saskatoon to Antigua takes about 24 hours, which includes a stopover in Toronto. "We also

have to bring just about all our supplies down here," says Kingdon, who is even paler than Kalesnikoff. "Everything from a three-hole punch to a stapler to PowerBars. We don't have a photocopier in our office or Internet hookup."

Although neither complains about spending chunks of the winter under the nourishing Caribbean sun, being headquartered at a resort is a mixed blessing. "It's hard to be working six, sometimes seven, days a week here when everyone else is on holiday," says Kalesnikoff.

As dusk paints the sky a smoky blue, Kalesnikoff and Kingdon unwind from their long day hunched over boxes of MBS documents with a welcomed rum and Coke. Wearing short-sleeved shirts and dress pants, they begin to talk about how their tiny Saskatoon firm (there are two other associates, Mel Karakochuk, CA, and Gary McLennan, another RCMP alumnus) came to be viewed as the forensic financial investigators of choice in the Caribbean. It's a story of how one phone call and a lot of hard work dramatically changed their lives — and threatened them as well.

Doug Kalesnikoff was raised in Blaine Lake, Sask., a small town of 500 people north of Saskatoon. An excellent student, he rode his skill in mathematics to five scholarships at the University of Saskatchewan, where he obtained his bachelor of commerce in 1977 with high distinction. Two years later, he snagged his CA designation on his first try. Kalesnikoff began his accounting career at what was then Peat Marwick Mitchell in Saskatoon, where he was handed the usual audit and tax assignments. When Peat Marwick acquired the forensic accounting practice of Lindquist Holmes in 1985, he shifted his focus to that work, eventually setting up his own practice in 1989.

Along the way, Kalesnikoff worked on some files for the RCMP's commercial crime unit where he met (in addition to Kingdon) Insp. Sid Bloxom. In late July 1997, he received a call from Bloxom "asking if I could come down

here to help with some problems with a Crown corporation," says Kalesnikoff. "This was on a Monday and he said, 'can you be here by Thursday?' I was about to say, sure I can drive down, thinking he meant Regina, when he said he would arrange for my flight. That's when I learned he was calling from St. Kitts."

Kalesnikoff had no idea where the federation of St. Kitts and Nevis, the country's official name, was located, so he and his secretary looked it up on a map. The following week he was sworn in as the forensic auditor (having been selected over KPMG) for a commission of inquiry investigating the activities of several Crown corporations. Kalesnikoff and his then partner, Gary Martens, CA, impressed the commissioners with their investigative and financial analysis work, done in conjunction with the RCMP, which had originally been asked by the government of St. Kitts for assistance.

Soon after the completion of that inquiry in 1999, Kalesnikoff was retained to assist in a new one in St. Kitts. Its mandate was to look into alleged fraud and government corruption dealing with loan guarantees of US\$25 million for several hydrofoils (which went missing) that the government purchased from an Italian company. It was headed up by Sir Louis Blom-Cooper, who is respected internationally for his work on commissions of inquiry (which are fact-finding bodies that investigate the circumstances and conduct of politicians and public servants that have "given rise to public disquiet," to quote a 1966 British royal commission on tribunals of inquiry into — what else — royal commissions of inquiry).

While grappling with that complex case (the RCMP was again assisting), Kalesnikoff was asked to investigate a multinational corporation to determine whether it was complying with its tax and other contractual agreements with the governments of St. Kitts, St. Lucia, St. Vincent, Dominica and Grenada. By this point, Kalesnikoff had been joined by Kingdon, Karakochuk and McLennan; and he brought in David Elzinga, CA.IFA, and Derek

Malcolm, CA.IFA, both forensic accountants.

As a result of these high-profile engagements, Kalesnikoff quickly developed a reputation in the Caribbean (especially the eastern region) as an accomplished and honest financial investigator. "As the expert appointed by the Commission," wrote Sir Louis Blom-Cooper, "[Kalesnikoff] was demonstrably independent and impartial, not always the case where an expert is called by one party or another in an adversarial process. Indeed, in my view, such was the impressive quality of his report and its thoroughness that it was unchallengeable. I have no hesitation, therefore, in accepting in totality his findings on financial matters, and agreeing with his general conclusions."

More work poured in, including an assignment from the attorney general of the Cayman Islands and the MBS inquiry in Antigua. "I'd estimate that in 2001, approximately half our revenue came from the Caribbean," says Kalesnikoff. "It's totally changed our business." It has also changed his personal life. A single parent whose marriage had ended in the late '90s, Kalesnikoff met and fell in love with Karen Richardson, a native of St. Kitts, during his numerous trips to the island. About 15 years his junior, she has not only helped him by transcribing many of his taped interviews, she's also spent considerable time in Saskatoon taking care of family matters, especially when he has to be in the Caribbean.

The death threats didn't formally come until May, but Kalesnikoff and Kingdon sensed a level of danger surrounding the MBS inquiry from the outset of their work last year. Mary White, a local lawyer who refused to endorse a report that would have placed some of the culpability for the MBS scandal on Cort, had her home and office broken into. One of her pets was killed and its severed head nailed to a tree. Her files were ransacked and obscene comments were scrawled on her office walls.

There are obvious reasons why some forces would like to intimidate the people conducting the MBS inquiry. The revelations to date include some damning indictments of the bureaucrats who ran the scheme and of the government's apparent abuse of its resources. Early on in his investigation, for example, Kalesnikoff discovered that since the start of the scheme in 1978 the government had taken all the employees' MBS contributions and used them as general revenue and possibly other purposes instead of toward the scheme. On top of that, the government had never contributed its matching obligations to the MBS.

He also detailed the staggering cost to Antigua and Barbuda of an ill-advised attempt to build Mount St. Johns Medical Centre, a state-of-the-art hospital in St. John's that would have also served other Eastern Caribbean countries. Through an unusual financial agreement and a very ambitious undertaking, the MBS is responsible for all the loans to construct, equip and operate the centre. The project ground to a halt, however, when the lender stopped advancing monies to the contractor on schedule as the government was in default on payments to the lender on loans unrelated to the medical centre. By early 2002, construction was suspended with less than half of the work completed. (Many observers doubt it will ever be finished and predict that, at best, it will be turned into a hotel.)

Kalesnikoff testified at the inquiry that the amortized cost of servicing MBS's existing debt on the centre, not including any additional costs to complete it, will be East Caribbean \$6.4 million (\$3.6 million) a year for 30 years, totaling EC\$192 million, an overwhelming financial burden for a small country. While in the witness box in April, Kalesnikoff concluded that if additional debt was required to complete the centre, the MBS could not afford it. He also noted MBS's financial statements for the past two years had not been completed, and of those that had in the past, the rosy picture they portrayed was misleading and dangerous when placed under a financial microscope.

Kalesnikoff and his team, which included three experienced members of the Antiguan police, also uncovered questionable activities involving Cavelle John, the former superintendent of MBS. She was the sole proprietor of a company called tropical World, which Kalesnikoff revealed had benefited from lucrative business dealings with MBS, a conflict John had never declared. The "most troubling aspect of this entire episode," he testified, was that John countersigned most of the cheques paid by MBS to Tropical World. He questioned whether MBS had overpaid tropical World for numerous goods and whether other purchases — MBS seemed to buy a lot of kettles, for example — had even been necessary.

Perhaps what riled the packed hearing room the most was his evidence that MBS annually held an extravagant Christmas party for its employees, their children and extended family members. The annual bill to MBS from Tropical World, which supplied the gifts, decorations and most of the food for the party, rose to more than EC\$100,000 in 1999 from EC\$7,000 in 1993. Some of the children, Kalesnikoff told the commissioners, received several gifts and there were toys left over. "I host a Christmas party every year for about 450 children in my constituency," says Bernard Percival, a former minister of health (he was also relieved of his portfolio by the prime minister before the inquiry being established, a move Percival believes was politically motivated to make him a scapegoat), "and I don't spend [EC\$10,800]. Here they're hosting a party for 60 of the better paid workers in the country and their children and they're spending EC\$100,000."

When John took the stand in April for the first time, the spectators were so hostile to her that she broke down in tears and left Antigua to receive psychiatric treatment. "When she was at the airport there was apparently a big disturbance," says Kalesnikoff. "People were angry that they had to fly with her in case there might be a bomb on board." (She never completed her testimony, citing a

note that she was under psychiatric care.)

It was not long after April when Kalesnikoff returned to Canada after delivering his testimony that a serious death threat arrived at the inquiry (some of the testimony was so damning to the minister of health, Hilroy Humphreys, that he was forced to resign; rumours at the inquiry said the minister was carrying a gun while on the stand). Entitled "Danger," the unsigned letter was delivered to the three commissioners at the Royal Antiguan (the room of commissioner John Roberts was also broken into). "No one is safe anymore," it said in part. "You will be killed. No one knows the hour, date or time when this sad event will occur. It will be done Jamaican style ... it will happen and soon. A cocktail or bomb should start you off. We have people everywhere. Good Luck. I will do anything to protect my government." The letter also cautioned, "In my home town of Jamaica, when people get greedy like Roberts, Frederick, [inquiry counsel Richard] Cheltenham, [inquiry commissioner Sir Alister] McIntyre, Douglas, and Stuart [sic], they should be shot and killed."

The inquiry concluded its hearings in June and released its report to Prime Minister Bird in late summer (it had not been made public by press time; see CAmagazine.com). according to a statement from the prime minister, the report made 33 recommendations, including replacing the MBS with a national health insurance plan and it encouraged the government to consider laying criminal charges against several individuals. Soon after, the opposition leader called for Bird to resign.

Before the report was finished, an editorial in *The Daily Observer* in February underscored the seriousness of what's at stake if the outcome of the inquiry does not bring about meaningful change to how the government operates: "People ask, who will save us? The answer is simple: the people of Antigua will only be saved when they finally lose all fear and are ready to lay their lives down to defend the Constitution."

Kalesnikoff sincerely hopes it won't take violence to bring about closure to this difficult period in Antigua's history. But whatever occurs, he is confident he and his partners have provided an honest and accurate account of the often-convoluted matters they were retained to investigate, an opinion endorsed at the end of his investigation by all three commissioners. He also knows his adventure in the Caribbean is far from over. "We have been asked to do more work in several countries," he says. Would he consider moving his office to the Caribbean? "I've thought about it," he admits one february afternoon, the sunshine spilling gloriously through the windows in the war room at the Royal Antiguan. "But I don't think it will happen. We all have too many ties to Canada." Then the phone rings and it's Karen calling from Saskatoon. "What temperature is it?" he asks her. "Maybe you shouldn't go outside today," he advises and explains how to plug in the car's block heater. When he hangs up he turns to Kingdon. "It's -31 there; -31," he says, and they both laugh. Yes, it's a long commute to the Caribbean, but at times like this, the constant delayed flights, lost baggage, limited resources and other challenges definitely seem worth the effort.

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*Paul McLaughlin is a Toronto writer.*