Presentation to Audit Committee
May 28, 2014

Review of the Redevelopment of the Sony Centre for the Performing Arts

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Presentation Outline

- Background
- Audit Request
- Audit Scope
- Summary of Findings
- Key Recommendations
- Conclusion
Background

• In 2002, City Council requested a business plan to address relocation of the COC and NBC

• In 2003, a business plan was submitted which included development of $75 million CityCentre cultural attraction

• By 2008, it was apparent that the required federal and provincial funding would not be realized
  – Construction of a public plaza instead of the CityCentre
  – The anticipated cost of this revised plan was estimated to be $28.5 million

• The total cost of the redevelopment is now expected to exceed $40 million
Audit Request

• In 2012, City Council requested a complete audit of 2006-2011 inclusive of business plans

• Auditor General revised 2013 Work Plan to include a review of the Sony Centre redevelopment and its effectiveness in achieving the objectives in its business plan
The audit included a review of:
- Administrative controls over the funding and disbursements for the project
- Procurement of goods and services
- Contract administration and project management practices

The review covered transactions primarily related to the interior renovations during the period from 2008 to 2011
Summary of Findings (1)

- Improvements needed to the relationship between the City and its agencies and corporations, including the Sony Centre

- The redevelopment did not meet the objectives set out in the approved business plan
Summary of Findings (2)

- Procurement policies were inadequate
- Non-compliance with City policies on donations and sponsorships
- Accounting treatment of non-routine transactions needs review
- Deficiencies in construction management and contract administration procedures
Summary of Findings (3)
Inadequate Retention of Documentation (1)

Support for Sole Sourcing Decisions

• No documentation to support decision to sole source including steps taken to demonstrate best value and/or lowest price
  – Architect
  – Structural Engineer
  – Legal
  – Project Management
  – Environmental Consultant
  – Asbestos
  – Kitchen Upgrades

• No evidence of Board approval to sole source contracts (e.g., meeting minutes or staff reports)
Inadequate Retention of Documentation (2)

Procurement Processes

• No evidence of due diligence procedures for procurement of:
  – Construction Manager
  – Mechanical & Electrical Engineer
  – Acoustic Engineer
  – Temporary Dressing Rooms Trailers

• Documentation to support procurement for trade contracts not provided (sample of 5 trade contracts totalling $10 million)
  – Call documents (5 not retained)
  – Bid submissions (5 not retained)
  – Record of bid opening (3 not retained)
  – Bid evaluations (1 not retained)
  – Bid price sheet for winning submissions (1 not retained)
  – Executed trade contracts (4 not retained)
  – Trade schedule (5 not retained)
  – WSIB, Certificate of Insurance (5 not retained)
  – Payment & Performance Bonds (4 not retained)
Inadequate Retention of Documentation (3)

Board Approvals

- No evidence of Board approval of contract awards for purchases over $100,000 (e.g., meeting minutes or staff reports)
  - Construction Manager ($1.2 million in costs had already been incurred prior to the Board's approval of the contract in November 2009)
  - Architect
  - Mechanical & Electrical Engineer
  - Structural Engineer
  - Project Management
  - Environmental Consultant
  - Auditorium Roof Replacement
  - Signage Work

- No evidence of Board approval of spending which exceeded original level of commitment
  - Acoustic Engineer
  - Asbestos Abatement
  - Lobby and Audio / Visual Program
  - Brass, Bronze & Wood Restoration
  - Temporary Dressing Room Trailers
Inadequate Retention of Documentation (4)

Contracts and/or Purchase Orders

• No formal agreement for:
  – Project Management
  – Pre-construction services performed by the Construction Manager (2007-2008) and $1.2 million in costs incurred before the construction contract was signed

• Only partial fee letters for Consulting and Professional Services
  – Architect
  – Structural Engineer
  – Project Management

• Missing or incomplete purchase orders
  – Environmental Consultant
  – Lobby and Audio / Visual Program
  – Signage Work
Inadequate Retention of Documentation (5)

Construction Contract Management

- No evidence of:
  - Process conducted to pre-qualify trades invited for tenders
  - Comprehensive construction schedule
  - Ongoing / regular site inspections and quality control
  - Construction lien search

- Insufficient documentation to conclude that controls were operating effectively throughout the construction period
  - Supporting documentation for change order pricing (e.g., trade contractor quote; review by architect / consulting engineers)
  - Review by architect / consulting engineers prior to certification of payments (5 out of 5 payments sampled)
Summary of Findings (4)
Overall Scope of Redevelopment

- Redevelopment was to include all work identified in building condition assessment including interior and exterior renovations

- Was to be funded entirely by land sales revenues and Sony Centre capital reserve
Phase 1 Renovation Budget and Costs

• $28.5 million in 2009 Capital Budget for:
  – theatre renovations - $16.0 million
  – mechanical and electrical work - $11.5 million
  – public plaza construction - $1.0 million

• Council approved subsequent budget increases of $3.5 million in 2010 and $3.4 million in 2011

• Total reported cost of Phase 1 = $35.4 million

• Other cost not included in the $35.4 million:
  – Cost of the redevelopment business plan
  – Pre-construction services incurred before 2008
  – Operating costs funded through the capital reserve fund
### Estimated Cost for Remaining Phases

<table>
<thead>
<tr>
<th>Phase 2 – Construction of new backstage facilities</th>
<th>Source of Funding</th>
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</thead>
<tbody>
<tr>
<td>• $400,000 to prepare and equip for use the additional space constructed by the Developer</td>
<td>City debt</td>
</tr>
<tr>
<td>• $622,000 for connections between new backstage facilities and the existing Sony Centre</td>
<td>Sony Centre capital reserve fund</td>
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<tr>
<th>Phase 3 – Public plaza and exterior renovations</th>
<th>Source of Funding</th>
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<tbody>
<tr>
<td>• $1,990,000 for exterior renovations required by the 2008 Heritage Easement Agreement</td>
<td>City debt</td>
</tr>
<tr>
<td>• $984,000 for public plaza</td>
<td>$300,000 City development charges and $700,000 developer payments</td>
</tr>
</tbody>
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Overall Redevelopment Cost and Funding

• It is now expected to cost $40 million to complete the 3 phases of the redevelopment

• These costs were funded by:
  – Capital reserve funds (ticket surcharges and naming rights)
  – Sale of land and air rights
  – Additional developer payments
  – Additional capital funding from the City:
    • $6.65 million long term loan from City, plus accrued interest at 5% compounded semi-annually
    • At least $2.7 million included in the 2014-2023 Capital Plan to be funded by the City via debt and development charges

• Additional costs and rationale for excluded elements of the original building condition assessment still need to be reported
Key Recommendations (1)

- 4 recommendations for the City Manager to improve coordination and co-operation with agencies and corporations
  - Revise operating agreement
  - Evaluate the role of the City in large construction projects
  - Provide information on policy requirements
  - Review accounting transactions related to City funded capital works program
8 recommendations for the Sony Centre:

- Strategic plan and business plan, including revisions, be consistent with Council-approved objectives
- Report on:
  - Total costs and funding for all phases of the redevelopment
  - Status of works identified in building condition reviews
- Develop a comprehensive procurement policy
- Resolve accounting issues with the external auditors
- *No recommendations are included for construction management and contract administration*
Conclusion

• City and Sony Centre Management have agreed with all 12 recommendations
• Management action plans are appended to the report
• A follow-up review of the implementation of audit recommendations will take place in early 2015