



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

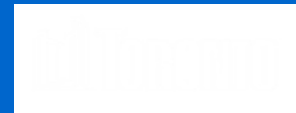
- In 2002, City Council requested a business plan to address relocation of the COC and NBC
- In 2003, a business plan was submitted which included development of \$75 million CityCentre cultural attraction
- By 2008, it was apparent that the required federal and provincial funding would not be realized
 - 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

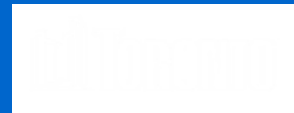
- In 2012, City Council requested a complete audit of 2006-2011 inclusive of business plans
- Auditor General revised 2013 Work Plan to include a review of the Sony Centre redevelopment and its effectiveness in achieving the objectives in its business plan





Audit Scope

- 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)

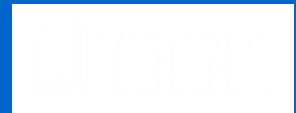
- Improvements needed to the relationship between the City and its agencies and corporations, including the Sony Centre
- The redevelopment did not meet the objectives set out in the approved business plan





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



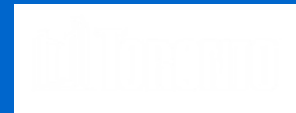


Summary of Findings (3)

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)

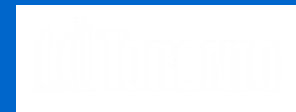




Inadequate Retention of Documentation (2)

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)

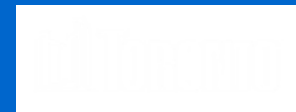




Inadequate Retention of Documentation (3)

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

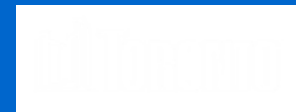




Inadequate Retention of Documentation (4)

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

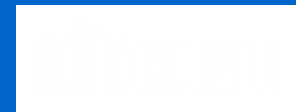




Inadequate Retention of Documentation (5)

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

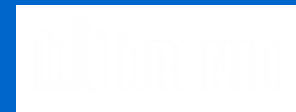
- Redevelopment was to include all work identified in building condition assessment including interior and exterior renovations
- Was to be funded entirely by land sales revenues and Sony Centre capital reserve





Phase 1 Renovation Budget and Costs

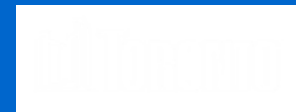
- \$28.5 million in 2009 Capital Budget for:
 - theatre renovations - \$16.0 million
 - mechanical and electrical work - \$11.5 million
 - public plaza construction - \$1.0 million
- Council approved subsequent budget increases of \$3.5 million in 2010 and \$3.4 million in 2011
- Total reported cost 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 to Complete Redevelopment

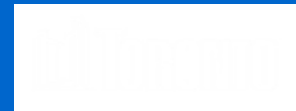
Estimated Cost for Remaining Phases	Source of Funding
Phase 2 – Construction of new backstage facilities	
<ul style="list-style-type: none">• \$400,000 to prepare and equip for use the additional space constructed by the Developer• \$622,000 for connections between new backstage facilities and the existing Sony Centre	City debt Sony Centre capital reserve fund
Phase 3 – Public plaza and exterior renovations	
<ul style="list-style-type: none">• \$1,990,000 for exterior renovations required by the 2008 Heritage Easement Agreement• \$984,000 for public plaza	City debt \$300,000 City development charges and \$700,000 developer payments





Overall Redevelopment Cost and Funding

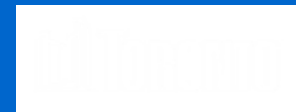
- It is now expected to cost \$40 million to complete the 3 phases of the redevelopment
- These costs were funded by:
 - Capital reserve funds (ticket surcharges and naming rights)
 - Sale of land and air rights
 - Additional developer payments
 - Additional capital funding from the City:
 - \$6.65 million 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

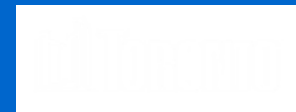




Key Recommendations (2)

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

